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BEYOND THE UNIFICATION OF MARKETS: A GLOBAL COMMUNITY OF COOPERATION AND SHARED KNOWLEDGE FOR SECURITY AND DEVELOPMENT

Some personal reflections

Rubens Ricupero
Secretary-General of UNCTAD

There are better ways of ending a century (indeed, a millennium) than with a war superimposed on a major economic crisis amidst recurring bouts of food panic. Contrary to the poetic prediction, our world ends with a bang, not a whimper.

Wars, crises and food panics share a common effect: they produce fear, anxiety, insecurity. They do it not only by inflicting actual pain but also by threatening to take away from us the possibility of having any kind of a future. And, as we live almost as much for the future as for the present, constantly planning what to do next, it is hard to contemplate life without the perspective of a better future.

But life is only meaningful if in the present and in the future, we can fulfil the two most basic needs of human beings: security and affection.

States, governments and international organizations were originally established with the central goal of providing security. Are they still doing their job in this world in revolution?

Until a few years ago, the greatest threat to security came from external aggression, war between States. Thanks to a variety of factors, including good luck, and, in some small measure, with the help of international organizations, such as the United Nations, we were barely able to avoid Mutually Assured Destruction (MAD). But the Cold War, the "equilibrium of terror", the two-bloc division of the world, of Europe, Germany, Berlin, and Viet Nam, ideological confrontation, and totalitarian communism have now been put behind us. This was no minor achievement, and we should be grateful for it.

No sooner, however, had we faced down the threat of nuclear annihilation than we had to face up to another brutal mode of destruction and cruelty: civil wars, ethnic cleansing, and genocide - in Cambodia, in Africa, in Bosnia, and now in Kosovo. Neither the United Nations nor regional organizations or military alliances such as NATO were designed to cope with the prevalence of intra-State wars. Is it any wonder that they were unable to prevent the outbreak of these conflicts and have had a very mixed record in dealing with them once violence was out in the open?

The tragic paradox of the war in Kosovo - a war where civilian casualties became the rule, not the exception, and where civilians were practically the only victims - underlines something that is at the root of the current state of perplexity and bewilderment. Put briefly, the ability to make clear-cut choices between the affirmation and the negation of values is growing more and more difficult. The options available are more in the nature of problematic trade-offs between equally important values.

The public debate in NATO countries over Kosovo focused not on ends - after all, everybody agreed that ethnic cleansing had to be stopped - but on means. Would it have been possible to reconcile the sacred value of the lives of one's own soldiers with the equally precious lives of foreign civilians? Could the massive human rights violations that were recorded have been thwarted within rather than outside the framework of the United Nations? And, should the reasons invoked for the intervention in Kosovo also apply to similar situations in other countries, beyond the pale of Europe and the glare of the television lights?

To raise these questions is not to challenge recent decisions: it is simply intended to show that even within countries engaged in the Kosovo campaign the margin of choice sometimes appeared limited, imperfect, selective. Nor should this question-raising serve as an alibi for inaction and paralysis: in extreme situations like the one in Kosovo, priority must always be given to human beings. The example to be avoided is that of Rwanda, where an estimated one million people were killed while the entire world was looking in other directions.

Whenever certain values are pursued at the cost of other values, the fact remains that action, even when urgent and necessary, cannot evade a heart-rending debate. This debate leaves in its wake a sense of ambiguity and confusion, in itself the source of much contemporary malaise.

Technology - that is, applied knowledge - seems near to making a reality of the old human dream of invulnerability, the ability to wage war without incurring losses. It will perhaps sound contradictory that such a seemingly welcome development may, in the end, create a real or apparent imbalance in the cost-benefit equation of warfare that could become somewhat biased in favour of the second element. This is one case where knowledge clearly reinforces power. But what effect will this development have on the perception of security of those who do not possess the relevant technology? The best guarantee against an increase in the insecurity of the latter would be if these breakthroughs in the means of waging war served to *strengthen*, not to undermine, the concept of collective security, that is, they should be placed clearly at the service of international security and legality. To do this will require a better decision-making mechanism, one that is less prone to Cold War-style paralysis and that is able to overcome the all too-frequent dilemma between acting decisively, even at the sacrifice of some values, or preserving certain values at the price of inaction in the face of the violation of higher values.

Only a democratic and effective mechanism of this sort could hope to attract the support of those who have the means to act and the free consent of the majority, thus imparting uncontested legitimacy to a power that would represent a much greater convergence of aspirations and values than is actually the case. This is why the world cannot do without the United Nations, the major source of legitimacy in the international system and the only truly universal forum where this indispensable consensus-making process can be carried out.

Man's relationship to the environment also presents the same causal link of technological knowledge breeding power (this time over nature), whereby that power paradoxically generates less rather than more security. The forces that unleashed two centuries of industrial expansion and unparalleled increases in wealth and well-being are the same forces that today threaten the atmosphere, the climate, the oceans, the forests and, most recently, the intimate secrets of life itself.

When Emmanuel Mounier wrote his book *La grande peur du vingtième siècle*, he had in mind nuclear annihilation. The big fears now are nuclear accidents, such as the one in Chernobyl, oil spills, the poisoning of oceans, the destruction of the ozone, global warming, the disappearance of forests and the extinction of species. Much of our old, somewhat naive, belief in the virtues of science and technology has been destroyed. Instead, the perception has arisen that scientists and government officials, allegedly were either directly responsible for, or else proved in league with big business, incapable of preventing, such contemporary problems as "mad cow disease", the transatlantic dispute over beef cattle pumped full of hormones, fears about genetically modified food or the failure to find a cure for AIDS.

What links many of these seemingly disparate issues is an often inchoate, but nevertheless palpable, fear on the part of large numbers of thoughtful people, in developing, and developed countries alike, that impersonal forces beyond their control and accountable to no one - distant bureaucracies, mammoth transnational corporations, international organizations meeting behind closed doors - are taking over their lives. The reaction is human, and understandable. But understanding, even sympathizing with, the concerns of those who wish to restore the fractured link between humanity and nature does not help to ensure the hard choices that have to be made. Should we call a halt to economic growth, even that of those who have lagged behind in development and who still suffer from scarcity of production, in order to rescue a global environment jeopardized by too much production and consumption by others? Should the precautionary principle be reason enough to renounce the promise that genetic engineering holds for curing diseases or revolutionizing agriculture?

Focusing our gaze on the economy, the panorama of insecurity spread across the landscape is no different here than in other fields. The century is ending with failure to solve two major problems: mass unemployment and growing inequality. No system of organizing production has ever been able to provide a productive job for every man and woman who wanted work. Disparities in the distribution of wealth and income are on the rise, both within and between nations. According to a recent study by Raymond W. Baker and Jennifer Nordin, "... we can expect to start the next century with income disparity between the top and bottom quintiles

of perhaps 150 to 1, if we are not there already".[1] Reversing a trend that was consolidated after the Industrial Revolution, guaranteed employment for life has become a thing of the past. Jobs are growing scarce and precarious. And, precariousness is the opposite of security. As one delegate to the International Labour Organization recently put it, the world is upside down: while grown men cannot get a job and must return to school to try to become "employable" again, children who should be in school are being put to work.

In the poor parts of the world, that is, on much of the planet, the very possibility of sustainable development has been called into question by the economic crisis that started in Asia two years ago. This, the fifth serious monetary and financial crisis of the last twenty years, truly deserves to be called a "crisis of development", for three main reasons. First, it hit almost exclusively most of the developing countries, at the same time sparing and even benefiting the industrial economies through falling prices for commodities, capital flight and cheap manufactured imports, because of currency devaluations. Second, and paradoxically, it was much more destructive of the most advanced of the developing nations, raising serious doubts about whether, as had long been assumed, development is a process that reduces the vulnerability of economies to external shocks. And third, it has created uncertainties and questions as to whether it will be possible, once the crisis is over, to regain the levels of economic performance that constituted the only convincing demonstration so far of the possibility of development over several decades, that is, the experience of that group of countries once dubbed "the Asian tigers".

Millions of people lost their jobs in the affected countries, thirty years of progress in fighting poverty was wiped out in a matter of weeks, and anguish, desperation, insecurity and, in some cases, political disintegration and violence came back in force. For the first time in many years, in 1998 and 1999 economic growth in the rich countries has been significantly higher than in poor nations, widening rather than narrowing the gap between the two groups.

Contrasts in the impact of crisis resulting from differences in power and knowledge have reappeared in the economy, as they have in the areas of political or environmental security. Currency devaluations in the United Kingdom or Italy in the early 1990s did not set off a financial meltdown or an investors' stampede, as they did in Thailand or the Republic of Korea in 1997. Was it because the two European industrial economies had more economic power, better "fundamentals" or more knowledge and skills about how to regulate and supervise financial markets?

In the sphere of economic decision-making, in terms of human values, the options available are no more satisfactory than the practical choices in other fields. Should we definitively sacrifice employment security and ask people to accept precariousness as a "normal" condition, as the price to pay for labour market flexibility, hopefully, in the process generating more jobs? Is it necessary, in order to reach this goal, to lower the cost of labour to the point of multiplying the number of the working poor, with consequential increases in misery and extreme inequality?

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[1] Raymond W. Baker and Jennifer Nordin, "A 150-to-1 Ratio is far too lopsided for Comfort", International Herald Tribune, February 5, 1999, Editorials / Opinion page.

Are developing countries condemned to subordinate their growth priority to the caprices of volatile financial markets?

In Baker and Nordin's article, the authors write: "A world linked by low-cost transportation and communication, particularly television, cell phones and the Internet, cannot be expected to remain compatible with a 150-to-1 income gap between major groups. A billion people living in dire poverty alongside a billion in widening splendour on a planet growing ever smaller and more integrated is not a sustainable scenario .... A global quintile disparity of 150 to 1 is fraught with risks for rich and poor alike."

In dramatic terms, Sadako Ogata, who, in her capacity as United Nations High Commissioner for Refugees, knows more than most about human tragedy, reminded us in a speech at the Holocaust Museum, that "there can be no globalization until we end genocide".

The message is clarion clear: first, there are no rigid boundaries separating the interconnected dimensions of security, be they of a political, economic or environmental nature; second, globalization cannot be confined to the realm of the economy.

This is what President Franklin D. Roosevelt meant when, more than fifty years ago, he said that all human beings should have freedom from fear and freedom from want. It is equally the basis for the fundamental integrity of human rights: political, social, economic, cultural rights and the right to development.

At the same time, the universality of some core values requires and imposes a shared responsibility on all of us, rich and poor alike. This is certainly true for human rights and the global environment. But how can one expect the poor to share responsibility in these areas if the rich do not provide evidence of the same solidarity in fighting poverty and underdevelopment? The dramatic, indefensible, shrinkage of official development aid is a deeply disturbing sign of a trend that could erode the moral foundation for the universal validity of central values. There can be one such foundation only: the basic unity of mankind. Belief in this concept has, however, to find expression in deeds as well as in words.

When Sadako Ogata says that globalization cannot coexist with genocide, she is simply stating that in order to justify its name, globalization must include, not exclude, integrate, not marginalize, and create life that is rich in all its diversity, not bring about the uniformity of poverty and death.

Her words have yet another dimension, one that merits highlighting. She suggests, and I concur, that globalization is not a finished historic product, a fait accompli imposed on us by forces beyond our control, immutable like the heavenly systems. It is rather a "work in progress", an *opera aperta*, a process in which we are, at the same time, both actors and subjects. Globalization in its various manifestations is still in its initial stages. It was only ten years ago that the Berlin Wall crumbled, followed by the disintegration of the Soviet Union and of communism in Europe, a political and social earthquake that put an end to ideological heterogeneity and

created the conditions for the convergence of ideas and values that today characterizes globalization.

As Stephen Commins[2] says "... while some ... are writing as if globalization is a completed or nearly-finished set of relationships and systems, in its present form it is an emergent system in a transition period that will take 15-25 years at a minimum." Some of the emerging relationships may undermine rather than enhance security. Moreover, some of the simplistic approaches to globalization adumbrated by its fans and its critics miss many of the subtleties and nuances within and between different societies. "A more inclusive framework of including population and environmental questions, the emergence of new roles for women, new forms of violence and conflict, and the deeper shortcomings of a narrowly conceived market-based approach is often missing", Commins writes. He argues, however, that "the early stages of the transitions now under way mean that there is a window of opportunity for shaping policies and global institutions that will not be available in 10 or 15 years". That opportunity is one that must be seized with both hands by all men and women of goodwill, of faith in the promise of a better future, and of energy and strength.

For developing countries, struggling to cope with these wrenching changes, the challenge is straightforward even if it is not easy. Rather than reconcile themselves to the need to adapt themselves to a supposedly unmodifiable global system, they must strive to shape it according to their own development needs at their own pace and in line with their own strengths and weaknesses. This process will, of necessity, go hand in hand with the struggle to integrate themselves successfully into a transformed and more open economic system.

For UNCTAD, the implications are clear. Its role must go beyond the effort to understand and interpret globalization; it must play its part in making sure that change is not for its own sake, but is for the better. UNCTAD's mission is not just to promote a kind of unqualified and unreserved integration of developing countries into the world economy and the trading system. In fact, contrary to what one frequently hears, it is not the amount and pace of international integration that counts but its quality. There is indeed such a thing as too much and too rapid integration of the wrong kind.

Take my own country, Brazil, as an example. For about 350 years, between 1530 and 1850, it was perfectly integrated into the trade system and the economy of the world. During that time, it exported virtually all of its sugar and coffee crops. Foreign trade accounted for a very high proportion of the economy. But this was achieved through a combination of the plantation system *(latifundia)* and slavery, that is, a system that powerfully concentrated wealth (the land) and income in the hands of a few (slaves of course were kept at bare subsistence levels).

That combination could only be created and maintained for so long because of the perverse mechanism that linked it to external markets (in the northern states of the USA, by

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[2] Stephen Commins, "Globalization and Foundations for Human Security", World Vision's discussion papers, World Vision International, number 8, Spring 1999, pg. 20-28.

contrast, slavery never took a hold because the ecological conditions for export crops based on plantations were absent). Thus, in the Brazilian case, full integration into the international markets resulted in social disintegration at home. What could possibly be more adverse to internal cohesiveness than a society divided into masters and slaves? One can easily think of other countries in Latin America that were much less integrated internationally and for that reason emerged from the colonial period in a more modest economic condition but with a better social balance.

Likewise, it is not hard to identify countries today that suffer from an over dependence either on external capital or finance, or else on a few commodities, or on a disproportionate amount of foreign direct investment concentrated in an "enclave" sector.

In short, what we should seek is the virtuous integration of developing countries into a more receptive global system, one which will help them to grow in a steady and socially harmonious way, increasing domestic savings and productivity, diversifying their supply capability, capturing an increasing share of the value-added chain, and incorporating technology.

There can be no denying that a new order of sorts is gradually taking shape. Its precise contours cannot yet be determined. But, in some cases, it is plainly going in the wrong direction: aggravating inequality, generating precariousness and insecurity, and curtailing the margin of flexibility or the capacity of action of countries and Governments. Instead of resigning ourselves passively to these developments, we have to rectify what has been going wrong, to ensure that change does not evolve in a chaotic or unjust way. In a different way, and in changed times, this effort is the continuation of the unfinished business of building a more equitable international order through the major conferences of the United Nations and other forums.

It is a little similar to the attitude - minus the presumptuousness - of Alfonso the Wise, King of Castile, when he said that if he had been present at the creation of the universe he would have given some useful hints on how to order it better.

As it is already changing, the question, then, is not whether the international system can change, but what meaning, direction and quality should be imparted to the transformation. Putting it more directly: in what kind of world do we want to live? I would suggest, in reply, that true globalization is much more than the reduction of barriers and the unification of markets for trade, investment and finance. It is not synonymous with liberalization, although it resorts to that policy tool in many cases.

It is worth noting that, until now, globalization has been somewhat selective in its approach to liberalization. Countries have been pressured to liberalize trade, investment and financial flows. But that liberalizing zeal has been found wanting when it comes to products of interest to developing countries and labour mobility, immigration in general or in promoting unfettered access to knowledge.

True globalization should aspire to the unification of the planetary space for communication, exchange and cooperation among peoples, cultures and civilizations; not in an abstract way, but through the human beings who embody and give reality to these concepts. Only in this way will it be possible to fully tap the potential of the phenomenon that gives globalization its distinctiveness: the breakthrough in telecommunications and electronics, the transformation of time and space. What these forces have in common is their power to bring people into contact with one another, finally to overcome isolation and to make conversation, interaction, commerce and other dealings much easier, quicker and cheaper. Putting telecommunications to good use does not only mean facilitating the exchange of goods. It should mean the exchange of ideas, values, beliefs and emotions. They should facilitate dialogue, not a clash of civilizations. Nothing symbolizes this better than the growing millions of people of different cultures and nationalities linked around the world by the common medium of the Internet.

The technological process driving globalization - the almost instantaneous transmission of expanding masses of information at rapidly shrinking prices - has been compared to Gutenberg's invention, what we can call "the first information revolution", in its deep impact in people's lives.

Part of this impact is the boost technology has given to the prominence already reached by the market, since, despite their imperfections, markets are usually far superior to bureaucracies in processing large amounts of information through price mechanisms. Although they cannot be the final judge of security, human rights, the quality of the environment, levels of poverty eradication, or indeed of equity or the many other values that transcend cold statistics and prices, they are certainly more efficient in promoting economic growth. In an age of information, the capacity to better use information, that is, knowledge, more effectively thus becomes the key to economic success in the market place; indeed, this strategic tool - a lever to expand reach and capacity - can be even more important than capital, cheap labour and natural resources.

There are two relevant categories of knowledge in this respect. One is the technical and economic knowledge that makes it possible to control sophisticated processes for producing goods and services and marketing them at a profit. The other, to some extent still elusive, category consists of political, social and cultural knowledge, that is, the capacity to manage increasingly complex social systems in a way that ensures coherence and synergy among a multitude of interacting elements.

It is the first type of knowledge that people generally have in mind when discussing today's knowledge-intensive economy. As knowledge becomes a more decisive factor, a more critical commodity, its acquisition makes development more than ever a continuous and uninterrupted learning process.

This has important implications for competition, which can no longer be regarded as an economic game requiring only clear rules and an impartial arbiter. A third element becomes indispensable: adequate preparation in order to learn how to compete. No one would consider

it reasonable or fair to expect a first-grader to successfully compete with a Harvard or Sorbonne graduate, but in the world trade arena that is actually what people are expecting from many developing nations.

At the very least, it will be necessary to provide each and every beginner with an equal opportunity to learn to play the game, with training time, during which the newcomer would not be crushed by the veterans. Even a relatively level playing field may not be enough when inequality and poverty are such that countries and individuals are starting from such widely disparate levels.

As R.H. Tawney, the British historian, wrote: "...opportunities to rise are not a substitute for a large measure of practical equality of income and social condition. The existence of such opportunities ... depends not only upon an open road but upon an equal start." In the New Statesman essay by Roy Hattersley[3] in which I found the above quotation, the author comments that, 130 years after William Gladstone removed the institutional barriers to Civil Service appointments and military commissions in Great Britain, the same people are still getting most of the jobs!

It is because they recognize that, "in an unequal society, the families below the poverty line are doomed to remain poor in absolute as well as relative terms", that some countries have resorted to affirmative action, equal opportunity laws and other pro-active measures to correct gross disparities at the start. The same rationale, I would suggest, holds true in terms of the continuous need for "special and differential treatment" for developing countries, redefined from its previous form in a more concrete and up-to-date way.

A dimension that is often missing from this debate is the relation of reciprocal feedback between knowledge and power, each breeding the other and being reinforced in return (four centuries ago, Francis Bacon said that "knowledge itself is power"). This explains why knowledge is protected by political and economic power, a trend that has been significantly strengthened in recent multilateral negotiations.

No one denies that inventors and innovators should be adequately rewarded. One wonders, however, whether the pendulum has not gone too far in that direction when the competition authorities of the major industrialized countries have to intervene with increasing frequency to put an end to the formation of pharmaceutical drug cartels and the establishment of dominant positions in the software industry and the Internet, and when a respected business historian, Professor John Galambos,[4] of Johns Hopkins University, declares as a matter of fact that "Global oligopolies are as inevitable as the sunrise". What kind of effective protection can be

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[3]Roy Hattersley, "Meritocracy doesn't work", The New Statesman Essay - Up and down the social ladder, 1999.

[4]Quoted in G. Pascal Zachary, "Let's Play Oligopoly! It's a Favorite Pursuit of Corporate Giants", article in The Wall Street Journal, March 10, 1990, pg. 1.

provided to consumers in developing countries where competition laws and institutions are either totally non-existent or suffer from structural weaknesses?

It would be naive to think that the problem of knowledge will be solved simply by building schools or installing computers in schoolrooms. One also needs to make sure that, as trade and other barriers fall, no unreasonable new barriers are erected in fields such as data banks or the genetic modification of living organisms. Since agriculture was first invented in the Middle East some twelve thousand years ago, seeds and domesticated animals have always flowed freely from one country and civilization to others, thus becoming what a Washington Natural History Museum exhibit called "the seeds of change"

Quite often these seeds were taken from the Amerindians and other defeated peoples, as was the case for maize, potato, tomato or cocoa. "Whatever we inherit from the fortunate // We have taken from the defeated"[5] are lines that come to mind with the force of truth. One people's debt was usually cancelled out by a gift from this people to other peoples, in a spontaneous give-and-take, a balance of withdrawals and contributions to a common fund. Is it wise now to go in the opposite direction, making everything open to private appropriation for the sake of profit?

In the past, knowledge was frequently the factor that made domination and oppression possible, as was the case during the rise of the West and the imposition of its rule on peoples in Asia, Africa and the Americas. "History may be servitude, History may be freedom".[6] But, if it is not to repeat itself, if history tomorrow is to be about freedom, knowledge must become not a monopoly but an accessible and liberating force. Only in this way can we realize the wish of Norbert Wiener, the founder of cybernetics, when he said. "To be informed is to be free."

There would be a perverse irony if access to knowledge were increasingly to be curtailed precisely at a time when the telecommunications revolution is rendering much easier the physical flow of information among civilizations that has driven much of the intellectual progress of mankind.

The kind of knowledge most badly needed, and the area in which progress has unfortunately been patchy at best, is the capacity to manage increasingly complex social systems in a way that gives them coherence and meaning. This capacity is the result of a gradual and cumulative process, of maturation and learning through experience. Compared to the simpler forms of knowledge acquired in the short or medium term, it is, in the language of Fernand Braudel, a process that unfolds along secular trends, the *longue durée*. This type of knowledge is generally what is in the back of our minds when we look at advanced societies that have learned not only how to grow wealthy but also how to become more politically and economically stable and democratic, less prone to violence, more socially balanced, cohesive and harmonious. It is

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[5]T.S. Eliot, "Little Gidding", III, in Four Quartets, The Complete Poems and Plays 1909-1950, Harcourt, Brace World, INC, New York, 1971, pg. 143.

[6]Idem, ib, pg. 142.

a totality resulting from the mutually reinforcing interplay of advances in all fields, not only in economic performance, making the accumulation more than the mere sum of the parts.

It is easier to find successful examples of this kind at the national than at the international level, as the complexity naturally increases as one moves upwards. Admittedly, there have been some considerable international accomplishments. Success for over 50 years in avoiding a repetition of the World Wars, the Great Depression or the use of atomic weapons are matters for which we have cause to give thanks. Nonetheless, much remains to be done.

Being a knowledge-based organization that deals more with the woods than with the trees, the big picture of the world economy, as seen from the perspective of development, UNCTAD undoubtedly has something to say, and to do, as regards the need to bring coherence to the economic system, for the sake of developing countries. In the wake of the Asian crisis, when a monetary and financial breakdown deeply disrupted trade, for a fleeting moment the attention of the international community focused again on the need to promote a minimum degree of coherence between money and finance, on the one hand, and trade, on the other.

Contrary to predictions that the impressive trade growth of recent years would buoy the global economy for the rest of the decade, it was the reverse that took place. The financial meltdown was responsible for the collapse in trade growth from almost 10 per cent in 1997 to barely 3.7 per cent in 1998. This sharp fall was brought about by adjustments in current account balances achieved by the worst possible means, not through a virtuous circle of export expansion leading to import growth, but through a vicious circle of import repression generating deceleration in export volumes and reductions in commodity prices.

There is no shortage of other examples of incoherence in the system: we only need to think of the competitive devaluations that nullified at a simple monetary stroke a trade balance between countries carefully and painfully achieved over years of tariff negotiations.

It is most unfortunate that as soon as the fear of a global crisis waned, people settled for cosmetic changes and repeated the stale old platitudes about how, in due time, freely fluctuating exchange rates would bring a stability of sorts to the system; this, notwithstanding the fact that there has been almost three decades of constant volatility since that policy was adopted and a string of crises that have grown ever more intensive and destructive.

Lack of coherence is not a problem restricted to the monetary, financial and trade aspects of the international economy. The same difficulty resurfaces in the relationship between economic adjustment programmes, on the one hand, and social or environmental goals such as fighting poverty, providing basic education or health, offering a safety net for the unemployed and protecting tropical forests, on the other. How can one imagine a worse example of incoherence than the case of the United Republic of Tanzania, which has to spend nine times as much on its debt-servicing as it does on health (despite the AIDS pandemic) and four times as much as on basic education, thus sacrificing the investment in human resources that will condition its future for the sake of making its debt payments!

Therefore, coherence is about producing not only wealth but meaning, solidarity and human fulfilment. Without it, "Endless invention, endless experiment, // Brings knowledge of motion, but not of stillness, // Knowledge of speech, but not of silence, // Knowledge of words, and ignorance of the Word. // All our knowledge brings us nearer to our ignorance, // All our ignorance brings us nearer to death, // But nearness to death no nearer to God."[7] As T.S. Eliot asks in the choruses from "The Rock": "Where is the Life we have lost in living? // Where is the wisdom we have lost in knowledge? // Where is the knowledge we have lost in information?"[8]

At the twilight of the second millennium, if we want to avoid Eliot's terrible conclusion, that "The cycles of Heaven in twenty centuries // Bring us farther from God and nearer to the Dust",[9] we have to go back to where we started: at a minimum, the security of human beings in all of life's dimensions has to be assured.

But security is not enough: no one can live exclusively from security or stability. These only provide human beings with the possibility of having a future. The dream that tomorrow will be better than today and yesterday. That our children and their children shall be free from fear and want, that they will not only be secure but that they will be able to fulfil their lives through productive, creative work and through love, affection, solidarity and cooperation. To expect such a future is another name for hope.

International organizations (first and foremost among them the United Nations), Governments and organized civil society will have to build flexible structures of dialogue, decision-making and action with the goal of creating valid and credible reasons to hope. In other words, they must give people good reasons to follow the path of virtuous knowledge that Ulysses in The Divine Comedy urges his companions to pursue as the only ideal worthy of human beings:

> *"Considerate la vostra semenza:*
> *Fatti non foste a viver come bruti*
> *Ma per seguir virtute e conoscenza"*
>
> (Consider ye the seed from which ye sprang,
> Ye were not made to live like unto brutes,
> But for pursuit of virtue and of knowledge)
>
> (Dante, The Divine Comedy, Hell, Canto 26, vs. 118, 119 and 120).
> (translation by Henry Wadsworth Longfellow).

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[7] T.S. Eliot, Choruses from "The Rock", in The Complete Poems and Plays, pg. 96.

[8] Idem, ib.

[9] Idem, ib.

INTRODUCTION

1. The ninth session of the United Nations Conference on Trade and Development (UNCTAD IX) took place at a time when globalization seemed to offer mankind a promise of truly historical magnitude. The promise was for a broadening of opportunities to improve living standards and to secure a brighter future for millions of men, women and children. This was expected to occur as developing countries participated increasingly in the dynamic growth of the world economy. This growth, in turn, was believed to be the inevitable outcome of globalization, liberalization and rapid technological change.

2. And yet global economic reality, like Hamlet's heaven and earth, had in itself more things than were dreamt of in the philosophies of analysts, policy-makers and international negotiators. To be sure, progress had been made in the decade or so preceding UNCTAD IX. Income per capita had increased substantially in about one-eighth of the developing countries, although in twice as many it had stagnated or regressed and in most of them poverty remained stubbornly high and income distribution highly skewed. But such progress as did take place was fragile.

3. Events since 1996 have worked to undo the advances recorded in the late 1980s and early 1990s. Global financial instability has posed mounting difficulties to development and thrown many developing countries into disarray. As a result, growth in the developing world taken as a whole has collapsed: in 1998 the GDP of developing countries, including China, advanced by only 1.8 per cent. If China is excluded, growth was only 0.8 per cent. In 1999 the respective figures are expected to be 2.0 per cent and 1.2 per cent.

4. Most affected have been precisely those developing countries that had seemingly integrated most successfully into the globalizing world economy, notably those in East Asia. There, economic crisis has rapidly evolved into a social and indeed a human crisis, with sharp declines in real incomes for large segments of the population, rising unemployment, increases in the incidence of poverty, and a deterioration in health and educational services and in school attendance. In one of the most dramatic examples of this, the number of poor in Indonesia is estimated to have risen to 40 per cent of the population in 1998, as compared to 11 per cent in 1997. In some countries in South-East Asia there is also evidence that the economic crisis is leading to environmental degradation, in particular through more rapid deforestation and over-fishing.

5. While domestic management weaknesses have played a role in all cases, openness to the globalizing world economy and the difficulties experienced in managing that openness have also been important factors. Thus, capital outflows and outright capital flight have occurred in a number of countries in East Asia and in some countries in Latin America following financial crises.

Argentina and Mexico experienced combined short-term capital outflows of $35 billion in 1995-1996; Malaysia, the Philippines and the Republic of Korea saw a combined outflow of short-term capital of $24 billion in 1997. The behaviour of international capital markets has also been a major factor: for East Asia and Latin America, new lending by capital markets has fallen by half over the past year, and new loans are being made at higher interest rates than in the past. For many countries, including several in Africa, capital outflows and sharply lower new lending have given rise to large net outward capital transfers. International markets have also been affected. The prices of non-fuel primary commodities declined throughout the period 1996-1998, falling sharply during 1998; petroleum prices fell sharply in both 1997 and 1998, though there has been a partial recovery in the early part of 1999. The prices of some manufactured products exported by developing countries have recently weakened; and in South-East Asia and Latin America, falls in export prices outweighed any increases in export volumes in 1998, so that overall export values fell.

6. Trade might have expanded rapidly during the past decade, but for developing countries the growth of exports has lagged behind the growth of imports. This is particularly true for Latin American countries, where the gap between import growth and export growth has averaged 4 percentage points, but the imbalance is a general one, with the notable exception of China. The reasons for this situation are complex but, as the *Trade and Development Report, 1999* shows, a combination of declines in terms of trade, losses of export purchasing power and big-bang liberalizations of trade and capital accounts have contributed significantly to this outcome. Slow growth in industrial countries has also been an important factor.

7. The result of these trends is that, for many developing countries, the average trade deficit in the 1990s was higher than in the 1970s by almost 3 per cent of GDP, while the average growth rate was lower by 2 per cent per annum.

8. Nor are the difficulties in managing globalization restricted to developing countries. It is true that developed economies have been spared the worst effects of the crisis; in fact, some of the effects - such as the fall in commodity prices - have operated in their favour. However, except for North America, developed countries have consistently fallen short in their efforts to translate globalization into rapid and sustained growth. Likewise, liberalization and globalization have been accompanied almost everywhere by a deterioration in the distribution of income. In Central and Eastern Europe and the former Soviet Union, this tendency has been sharpened by the difficulties of establishing modern market economies. It has been estimated that, by the mid-1990s, one out of every three people in those economies was living below the poverty line of four dollars per day.

9. Overall, therefore, projections of gains in terms of faster growth, greater employment opportunities and poverty alleviation have thus proved overly optimistic. As a result, polarization among countries in the 1990s has been accompanied by increasing inequality within countries. The income share of the richest 20 per cent has risen almost everywhere, in many cases reversing a post-War trend. Increased job and income insecurity have become the norm in developed and developing countries alike, often despite improved price stability and fiscal discipline.

10. What has gone wrong? Scholars might - or might not - provide a full answer to that question in the years to come. What is now clear is that the difficulties of harnessing liberalization and globalization for the benefit of all have been seriously underestimated. It was assumed that the unfettered operation of markets and the unleashing of finance and industry on a global scale would create conditions in which all countries and all social groups within them would benefit. This overlooked a simple but fundamental fact: the twin processes of liberalization and globalization have sharply accentuated the extent to which economic success depends on the rapid acquisition of skills and on the creation and effective utilization of technology and information and their exploitation through markets. In such an environment, these processes have actually widened the gap between the feasible options available to skill-rich developed countries to accelerate growth and those available to most developing countries, just as they have widened the gap between the feasible options available to the educated elites in all countries to expand their incomes and welfare and the options available to most of the rest of the population.

11. In many countries the result of these trends is growing public disaffection with current economic strategies, a disaffection that threatens to erode the ability of Governments to maintain the open and liberal regimes which are the basis of current growth. There are signs of this happening already.

12. There is thus urgent need to rethink the processes, mechanisms and policies that underpin the functioning of the world economy, and in particular those that link developing countries to the forces of globalization. Not only would such reflection be timely; it is also feasible, since globalization is not a closed chapter but rather an evolving process subject to further change. This re-examination would have to address directly the issue of how to make these processes internally coherent. For example, is the growing phenomenon of growing unemployment and widening income differentials between skilled and unskilled workers intrinsic to globalization? Above all, however, it is necessary to make these processes more equitable. A world economic system that fails to offer poorer countries, and the poorer parts of the populations within them, adequate and realistic opportunities to raise their living standards will inevitably lose its legitimacy in much of the developing world. And without this legitimacy, no world economic system can long endure.

Chapter I

GLOBALIZATION AND DEVELOPMENT: THE SOURCES OF THE PRESENT IMPASSE

13. International trade, international financial flows, foreign direct investment and other forms of transborder linkages among private firms are the main instruments of globalization. Globalization, in turn, creates conditions leading to the further expansion of these flows and linkages. Each of these globalizing factors has grown rapidly - sometimes explosively - during the past decade. Financial transactions now account for a far larger proportion of transactions in foreign exchange markets than does international trade; foreign direct investment, though it has grown less rapidly than other financial transactions, has nonetheless grown faster than foreign trade; and foreign trade itself has consistently grown faster than world output. This intensification of transborder linkages was made possible by the rapid liberalization by developing countries of their trade and investment regimes, and it has benefited from the advances in information technology as a vehicle of transmission. As a result, though most of the world's goods and services are still produced and consumed locally and nationally, the highly dynamic character of the transmission mechanisms of globalization, and the broad macro trends that this dynamism implies, are creating a qualitatively new international environment for development.

14. The troubled relationship between globalization and development results from a number of imbalances. None of these are new, but each has taken on fresh aspects as the process of globalization has proceeded. A first category of imbalance is related to the structure of international systems governing development, trade and finance. It is becoming increasingly evident that in a number of regards these structures place unnecessary obstacles in the path of the efforts of developing countries to benefit from the forces of globalization. They are also not sufficiently comprehensive in scope in that they fail to cater adequately to the interests of developing countries, for example, in such areas as labour mobility and corporate responsibility. To a considerable extent, this reflects inadequate attention to the issue of equity in these systems.

15. A second category of imbalance stems from the condition of severe poverty and underdevelopment that continues to characterize most developing countries, as well as the structure of production and comparative advantage that typically accompanies underdevelopment. One aspect of severe poverty is an acute shortage of skills, in particular those necessary to cope with rapid changes in knowledge, technology, patterns of information flow, and the emergence of new financial instruments and practices. Because of these characteristics, developing countries systematically have fewer options than other countries for using international systems to their benefit and experience greater difficulty than other countries in identifying and taking advantage of the options that are open to them. The difficulties of the least developed countries are particularly severe, since these countries have less flexibility in responding to change and are more vulnerable to shifts in demand, prices and other competitive conditions.

A. The shortcomings of the external environment

3. Financial liberalization, private capital flows and instability in the development process

16. The development prospects of many developing countries have been adversely affected - and in some cases severely set back - by the financial crisis that originated in South-East Asia. This crisis was the joint product of globalized international financial markets and excessively rapid financial and capital market liberalization unaccompanied by a corresponding strengthening of financial regulation.

17. A recent United Nations report ("Towards a new international financial architecture", Report of the Task Force of the Executive Committee on Economic and Social Affairs of the United Nations (ECESA/99/1), New York, 21 January 1999) has illuminatingly discussed the international aspects of the financial crisis. It suggests that financial markets have always been characterized by a tendency to experience boom-and-bust cycles: periods when capital flows freely to borrowers, with little regard for the risks involved, followed by periods when capital is withdrawn from borrowers, and risks are systematically overestimated. Globalized finance, with its access to large amounts of information, instant communications and the capacity to move large amounts of money across borders in short periods of time, has moved the boom-and-bust cycle into the international arena. As a result, the volatility of capital flows to countries through these markets has increased greatly in recent times.

18. The experience of developing countries during the past several years has also demonstrated that financial crises are contagious; that is, once difficulties emerge, markets do not adequately discriminate between countries with strong and weak fundamentals, or between those with strong and weak economic structures and macroeconomic management. In addition, financial crises spread because investors that face losses in one market, and have to raise cash to deal with those losses, sell assets in another country, thereby depressing the prices of assets there.

19. Developing and transition economies have been highly vulnerable to financial volatility and contagion. They have been particularly prone to periods of rapid expansion and diversification of international financial flows, periodically followed by abrupt reversals. The latter, moreover, have led to severe damage to the domestic banking and financial systems of the countries experiencing them. Further, the reversal itself, the damage to the domestic banking system, and the policies that have had to be deployed to deal with both have usually led to a fall in output and trade, with downward pressures on both trade values and volumes. Financial instability has thus been compounded by trade instability, further complicating the task of developing countries in managing their external economic relations. Reductions in output, in turn, have led to falls in wages, income and employment, with severe social consequences. Indeed, such episodes have contributed to the deterioration in social welfare and income distribution that has been observed over the past decade. The poor benefit relatively little from large capital inflows, but bear a substantial share of the costs of coping with them. Experience also shows that the negative social effects of financial crises persist for years after financial markets declare the crisis to be over.

20. Finally, recent experience has demonstrated a fundamental problem of the global economy, namely the enormous discrepancy that exists between an increasingly sophisticated and dynamic international financial world, with rapid globalization of financial portfolios, and the lack of a proper institutional framework to manage it. Existing institutions are simply inadequately equipped to deal with financial globalization, and this fact was not taken into account in the evolution of development models.

2. The insufficiency of financing for development and the problem of debt

21. The rapid globalization of capital markets during the past two decades and the ability of a growing number of developing countries to tap those markets directly has been accompanied by the atrophy of official development assistance (ODA) and a significant slowing in the pace of lending by the multilateral financial institutions. However, access to private capital markets is an imperfect substitute for ODA, not least because usually only a relatively small proportion of borrowing on capital markets ends up financing additions to productive capacity. There thus continues to be a strong case for expanding official lending through the regular activities of the multilateral financial institutions. This need, too, has not found the place it deserves in any credible development model.

22. ODA has been the cornerstone of international cooperation for development throughout the post-Second World War period. It is the most direct expression of international solidarity for development and of the commitment of developed countries to assist poor countries. Since the allocation of its ODA among recipient countries is under the control of each donor country, such assistance can be directed toward the poorest developing countries most in need of this form of aid. Moreover, since allocation within each recipient country is under the joint control of the donor and the recipient Governments, ODA can be used to assist directly the poorest strata of society in recipient countries. Altogether, ODA has the potential to help the poorest people in the poorest countries directly. Although similar flows from non-governmental organizations also play an important role, the need for assistance for the poorest people in the poorest countries can only be met through vigorous and imaginative action by donor Governments, working in close collaboration with recipient Governments.

23. Unfortunately, vigour is not a term that can be applied to describe international efforts to provide ODA. Since 1992 the flow of ODA to the developing countries as a whole has declined significantly in real terms, and disbursements have also started to decrease in nominal terms. Disbursements were $49 billion in 1997, as compared with almost $60 billion in 1995. Each year the ratio of aggregate ODA of OECD member countries to their aggregate GNP reaches a new low. This ratio, which was 0.33 per cent of donors' GNP in 1990, fell to 0.22 per cent in 1997, a level that is less than one third the United Nations target for such flows.

24. Nor is there evidence that the increasingly scarce ODA funds are being concentrated more heavily on poor countries. ODA flows to the least developed countries (LDCs) have fallen just as much as overall ODA flows. Indeed, for 14 of the 21 OECD donor countries, ODA flows to

LDCs were actually lower in 1996 than in 1990. Overall, the share of LDCs in total ODA fell from 33 per cent in 1995 to 24 per cent in 1997.

25. Clearly, ODA is not being allowed to fulfil its potential.

26. In addition, a number of poorer developing countries, including LDCs, remain burdened by an overhang of unserviceable debt that prevents the re-establishment of normal relations between them and their creditors/donors. In sub-Saharan Africa, for example, in 1998 arrears on repayments of debt and interest amounted to 25 per cent of total debt outstanding. This has created significant imbalances in access to essential development finance.

27. The efforts of many poorer countries to bring about social and economic progress are being seriously impeded by problems connected with the size of their external debt. For many of these countries, debt service obligations absorb an excessive proportion of budgetary resources and of export receipts. It has long been recognized that the terms of past loans carried rates of interest that were too high and maturities that were too short in relation to the borrowing country's debt-servicing capacity. Action has had to be taken first to postpone debt repayments and then, when that proved inadequate, to write off part of the debt.

28. In 1996, the World Bank and the IMF launched a special debt relief initiative for heavily indebted poor countries (HIPCs). The HIPC initiative aimed to reduce the outstanding stock of debt of each eligible country to a sustainable level, that is to the point at which it could be serviced without running into arrears. However, the criteria for eligibility and the stages of the process required before debt relief would be given were quite restrictive, reflecting the inadequate funding of the initiative. This issue was highlighted by the analysis of many organizations, including UNCTAD, and by the campaigns of many NGOs. Falling commodity prices after the Asian financial crisis added urgency to the problem.

29. As a result, proposals were made by the Group of Eight in June 1999 that embodied more ambitious debt reduction targets and faster debt relief. They marked a clear improvement over the original HIPC framework, probably making at least nine additional countries eligible and speeding up relief to all eligible countries. Although the source of some of the additional financing required has been identified through an agreement to sell 10 million ounces of IMF gold, the burden-sharing scheme appears not to have been entirely worked out.

3. Development and the international trading system

30. The rule-based trading system embodied in the WTO is in the interests of developing countries, since it tends to attenuate the role of economic and political power in trade relations among the system's members. Nonetheless, the rules themselves, the trade topics that are chosen for negotiation and the patterns of liberalization that have emerged from the operation of the system are not always conducive to accelerating the development of developing countries.

31. This is visible in the differences in the treatment of products and sectors of interest to developing and developed trade partners. Thus, a high degree of flexibility is given to Governments as regards subsidies for research and technology development, such that Governments that can afford it are free to enhance their international competitiveness in exports that depend on technological advances. The results are then protected through the Agreement on Trade-related Intellectual Property Rights (TRIPS) and become the basis for market penetration by the country concerned - either directly through trade or through foreign direct investment. More generally, WTO members whose firms are on the "cutting edge" of technology are quick to take advantage of the system to "lock in" their competitive edge by ensuring that markets remain open to the products of those technologies.

32. Products of export interest to developing countries fare differently. Commodities - especially food and fibres - and their processed products continue to face high barriers in importing countries. In particular, high protection for the food industry in developed countries hampers diversification of activity in developing countries into fast growing fruit and vegetable products. Textiles and garments face relatively high tariffs, and the phasing out of quantitative restrictions called for in the WTO Agreement on Textiles and Clothing is being implemented in a way that delays expected benefits to most developing country exporters. Not until 2005 will there be a complete removal of quantitative restraints on developing countries' exports of textiles and clothing. Today's developing countries are thus being deprived of the opportunities available to the developed countries more than a century ago when the textiles and clothing sector was a critical stepping stone in their industrialization process.

33. These outcomes directly affect the development process and the ability of developing countries to promote equity and social development. The ability to export agricultural products is related directly to incomes in rural areas and to rural development. The manufacturers of clothing invariably employ mostly unskilled labour, and employment in this sector contributes directly to poverty alleviation. Many workers in the garment industry are usually also female, and their employment contributes directly to enhancing the economic and social status of women. For these and other reasons, the inability of the trading system to provide better access to markets for products of export interest to developing countries is a significant constraint on development.

34. Several other features of the trading system have also been less than development-friendly. They include the manner in which health and sanitary provisions are implemented and the costs of certification, the increased use of anti-dumping measures in areas in which developing countries have succeeded in penetrating markets, the asymmetry between the advanced state of liberalization of trade in goods and in service sectors of interest to developed countries, on the one hand, and the barriers to trade in labour services and in labour-intensive goods typically provided by developing countries, on the other, and the difficulties faced by developing countries in exercising their rights in the WTO.

B. The internal constraints of developing countries

35. However supportive the trade and finance systems may or may not be, developing countries must always strive to extract maximum benefit from them. However, these countries suffer from a number of characteristics that systematically limit their options for using these systems to advance their development. These characteristics also inhibit their ability to take full advantage of the options that do exist and to protect themselves against any negative consequences of the operation of the trade and finance systems.

1. Structural features

36. Many developing countries, and in particular most of the poorest among them, remain highly dependent on commodities for their export earnings. In these countries, a high proportion of domestic output and employment is also often accounted for by commodity production. In addition, commodity production and export often generate, directly and indirectly, an important part of budget revenue. Export earnings from commodities thus have an impact on development not only through their influence on foreign exchange earnings, but also through these other avenues.

37. Commodity production and trade have special characteristics that limit the possibilities of harnessing them for development. The commodity content of the production of goods and services has declined steadily over the past decades, so that the rise in the demand for commodities is far slower than the rise in output generally. In addition, investment and improvements in productivity in commodity production tend to result mostly in lower prices, thereby benefiting consumers rather than producers. As a result, the share of commodities in world trade - in terms of both volumes and values - has been falling steadily, while the instability of earnings along this declining trend has remained high. For all these reasons, developing country exporters have been denied a buoyant and dependable source of export earnings on which to base development, and have seen their share of world trade decline continuously. This is another important sense in which these countries have been, and continue to be, marginalized.

38. There have been important efforts to address these difficulties over the past years. For an individual developing country, the ultimate solution for over-dependence on a few commodities is to diversify production and exports, either by widening the range of commodities exported or by increasing the production and export of manufactures. A few countries have made tangible progress in diversification, either within the commodities sector itself or through the establishment of agro-businesses. But there are also countries whose dependence on commodities has actually increased. Overall, progress in this area has been disappointing.

39. The instability of export earnings from commodities has also been addressed. However, international facilities, such as the IMF's Commodity Stabilization Facility, STABEX and SYSMIN have all encountered difficulties which have prevented them from having a noticeable impact on instability or its consequences. Improved risk management has a role to play in alleviating the implications of commodity price fluctuations, but this, too, has its limitations.

40. Overall, national and international efforts to overcome the disadvantages of commodity dependence, and the limits it imposes on growth through trade, have not yet produced significant results.

41. The high cost of engaging in trade is a further characteristic of developing countries that diminishes their gains from trade. While the liberalizing trend has opened up new trading opportunities for developing countries, these are accompanied by the growing complexity of international trade resulting in particular from the interconnections among trade, investment, finance, transport and information flows. The lowering of trade barriers in the markets for developing country exports will, therefore, actually give rise to significant increases in exports only if the services supporting export trade are efficient - that is, internationally competitive.

42. Excessive transport costs are a feature of most developing countries, and costs are particularly high in the case of LDCs, especially the island and land-locked among them. Overall, the share of freight costs in import value is twice as high in developing countries (8.1 per cent) as in developed countries (4.1 per cent); in land-locked and island LDCs, freight costs range between 12 and 40 per cent of import values. For many developing countries, high transport costs are the major barrier preventing access to foreign markets.

43. While in some cases high transport costs are partially dictated by geography, they are largely the direct result of specific problems created by inadequate infrastructure, poorly maintained equipment, outdated regulatory frameworks, delays in information flows, complex administrative procedures and structures, lack of an integrated transport plan and an overall shortage of relevant skills. For land-locked countries, the regimes governing transit trade may themselves contribute to excessive costs.

44. Inefficient customs and trade-related financial services also impede trade. Developing countries must in addition cope with the uncertainties and lack of predictability with regard to the applicable legal framework for trade and trade-related transactions, in particular as regards multimodal transport. These issues directly affect the ability of developing countries to derive benefit from the evolving trading system, and they must therefore be addressed as an integral part of efforts to help them grasp the opportunities of that system.

2. Knowledge, skills and the firm

45. A further characteristic of most developing countries that prevents them from benefiting fully from the opportunities offered by the international trade and financial systems is the relative lack of skills of their work forces. Lack of skills, inadequate basic education, and the consequent lack of capacity to acquire skills have always been at the heart of the development conundrum. However, recent changes in the nature and content of economic growth have accentuated this constraint on development, and have magnified the difference in fortune between those with economically appropriate skills and those without.

46. As has been widely recognized for some time, growth and production have become increasingly "knowledge-based". This is reflected in the high proportion of a modern manufacturing firm's expenditure that is devoted to research and development, product design, process engineering, quality control, management routines, marketing, and investment and change capabilities. This in turn reflects rapid changes in technology, and in particular in the technology for producing, transmitting, receiving and utilizing information of all sorts. The latest manifestation of this trend is the expansion of the Internet, where the volume of data traffic has been doubling every 100 days and which is expected to connect 200 million users in more than 140 countries by the year 2000. These fundamental changes have made it easier than ever for various activities of a single production process to be located in different parts of the world, thereby facilitating the "deep integration" of production through the activities of transnational corporations. They open up opportunities for networking, partnering and other forms of cooperation among firms not linked by investment.

47. Most importantly, the increasingly critical role of knowledge as an economic input in the dynamic sectors of the world economy has important implications for income distribution within and among countries. A knowledge-based economy naturally operates to the advantage of those who are able to handle knowledge and against those who are not. Research in industrial countries has shown that when economic growth is knowledge- and skill-based, large portions of the population can lose ground even as the economy grows. The same holds internationally: in a world economy in which knowledge is the critical component of economic success, countries without the skills necessary to manipulate knowledge-based processes and to benefit from changes in technology fall behind even when the world economy grows vigorously. Indeed, they may do so even though they are being increasingly integrated into such a world economy. This is yet another sense in which many developing countries are becoming marginalized, and risk being marginalized even more.

48. Finally, an increasingly knowledge-based world economy has important consequences for policy-making. Policy will need to focus on fostering knowledge and skills, and on enhancing access to them. This involves tasks that are relatively new. Policy-makers in many developing countries, however, are unable to meet that challenge. Nowhere is this more evident than with regard to the operation of the international trading system, where a growing number of developing countries are experiencing difficulties in meeting their obligations and in participating meaningfully in the management of the trade regime through WTO. This is still another area in which many developing countries are becoming marginalized.

49. Two interrelated aspects of the knowledge/skills/development nexus are of special importance in determining the ability of firms in developing countries to benefit from the operation of the international systems of trade and finance. The first has to do with the difficulties faced by indigenous enterprises - especially small and medium-sized enterprises (SMEs) - in grasping the opportunities that flow from globalization and prospering in the emerging global environment.

50. The importance of micro enterprises and SMEs for development has long been recognized. Collectively, such firms often account for a large part of employment growth. Many

are capable of evolving into mainstream firms and are the proving ground from which entrepreneurship emerges. However, an economic environment characterized by liberalization and globalization and knowledge-based production processes poses particular challenges to these firms. Maintaining or increasing competitiveness in this environment requires a larger volume and set of resources, including financial resources, than SMEs traditionally have in-house or can easily access. Government programmes aimed at strengthening computer literacy, promoting the networking of research institutes and providing financial support for networks that transfer and diffuse technology can help. But because they have limited capacities to find and utilize the full range of information and knowledge necessary for their success, SMEs need to operate within the framework of a cooperative arrangement with partners - one of which is often a large firm - allowing the group as a whole to command the resources necessary for the success of the group and each of its members.

51. The second aspect revolves around the ability of developing countries to attract foreign direct investment (FDI) and to use it effectively for development. Increasingly it is the transfer of knowledge and skills that is seen as the main route through which development is influenced by FDI and other forms of cross-border cooperation between firms. This can take the form of transfer of relatively simple organizational and low-level managerial skills, as in the case of FDI for the production or assembly of simple manufactures in the poorest countries, or, in more advanced developing countries, of enhancing organizational and middle- and upper-level management skills, as well as opportunities to master and use effectively the newest technologies.

52. The extent to which an individual developing country can actually utilize the potential of FDI and similar arrangements to help overcome knowledge and skill deficiencies depends firstly on whether the country can attract FDI in the amounts desired. The geographical distribution of FDI among developing countries has been very uneven, with most of it going to a small number of developing countries.

53. Secondly, it depends on their own education and skill base. Knowledge and skill transfers are always a complement to - and never a substitute for - a country's own efforts to develop an educated work force with a wide range of economically relevant skills and to promote the generation and utilization of new technology. The greater these efforts, the more a country will be able to take advantage of knowledge and skill transfers through FDI.

54. Finally, knowledge transfer depends on the efforts undertaken by the host country to maximize the positive spillover effects that flow from FDI. The latter can be accompanied by a "clustering" of local firms, many of which may be small and medium-sized enterprises, which are set up to provide the incoming foreign firm with inputs of goods or services. Such clustering, and the related spillover effects, can be promoted by the host country, and the success of such promotion will have an important bearing on the benefits to development derived from FDI.

55. All in all, developing countries experience difficulties in exploiting the opportunities that in principle are available to them because of their lack of knowledge and skills. It is on these areas that international support to their efforts must be focused.

3. Domestic policies of developing countries and development models

56. An added difficulty faced by policy-makers in developing countries striving to integrate into the global economy is a creeping incertitude about the right set of domestic policies and, indeed, the appropriate development model that should underpin that integration.

57. During the past decade the policies of individual international organizations and of major aid donors, as well as of national developing country policy-makers, have been guided by a clear and remarkably similar view of the development process and of the reasons for the lack of more rapid progress in achieving development. This common view focused on the role of the state, which was perceived as often having been misplaced and misdirected in the past. It proclaimed the need for the state both to disengage from its direct involvement in productive activities and to introduce extensive liberalization of economic activity, including international trade, so as to allow markets to "get prices right". This, however, did not mean the state should wither away. The approach indicated that the state should enhance its role in providing a secure and predictable environment for private enterprise, in two senses: providing macroeconomic stability, which meant in effect price stability, notably by restricting budget deficits to levels that could be financed through non-monetary means, and providing a business-friendly legal system, which in the case of most poorer developing countries and countries in transition, involved extensive reform of the legal environment.

58. There can be no doubt that the ingredients described above indeed constitute the core of any credible strategy for development. However, it is now increasingly evident that, although necessary, these ingredients are far from sufficient: a number of other policy objectives or instruments essential for success were either overlooked or given inadequate attention in the strategies for development worked out with the help of international organizations and the donor community.

59. Several topics have been neglected. For example, how uniform should development patterns be? Are specialization patterns consistent with convergence in development levels? Are existing and emerging disciplines at the international level unduly restricting the ability of developing countries to implement policies consistent with their development strategies? If so, should developing countries be given greater room for manoeuvre? Above all, however, three overlooked topics stand out: getting markets to function properly, ensuring an equitable distribution of the costs and benefits of growth, and ensuring a favourable external environment.

60. Maximizing the potential for economic growth requires that markets be allowed to play their proper function of sending signals to economic actors on consumer desires, on the best way to allocate savings, on the relative scarcity of raw materials and other inputs, and on the best way to organize production for the benefit of investors, producers and consumers. Trade liberalization, deregulation, privatization and financial market liberalization were all designed to achieve this end.

61. In many developing countries, however, it is not realistic to expect that the withdrawal of government intervention will, by itself, produce well-functioning, competitive markets. Many

markets are relatively small and are characterized by a few sellers, sometimes large transnational corporations. Under these circumstances competitive behaviour may not be the rule, and liberalization may not result directly in the improvements in market functioning that are being sought. There is no gain in replacing a regulated public sector monopoly by a deregulated private sector oligopoly. Nor are there benefits to be had if tariff and non-tariff restrictions on trade disappear only to be replaced by firm-imposed barriers to competition. For these reasons, promoting competition needs to be an explicit activity of the state, and competition policy needs to be promoted, adequately developed and implemented.

62. Finance is another area in which liberalization may not have its intended effects unless it is accompanied by complementary actions by the state. Private entities in the financial sector - and in particular banks - require a sound legal framework combined with regulation and oversight if they are to function properly. Regulations are needed to maintain safety and soundness, to promote transparency and competition, and to protect consumers. Liberalization that takes place when regulation and oversight are not adequately in place can cause damage to the financial system and to the economy at large.

63. Past models of development have also failed to include explicit objectives with regard to social welfare and income distribution. It was assumed that a model that produced more rapid growth would also result in increased welfare and that Governments would take steps to ensure that minimum standards with regard to income distribution were met and that social safety nets would be put in place. However, the failure to articulate clear objectives in these areas as an integral part of the model inevitably meant that when there were conflicts between the exigencies of budget discipline, which were stated objectives in the model, and minimum social objectives, which were not, budget discipline inevitably won out. In addition to the evident social consequences, this outcome could be overtly anti-development: in a world in which knowledge and skills are the key to economic success, reducing budget expenditures on education deals a particularly severe blow to development. The primacy of budget discipline has also diminished the ability of the state to fulfil its role of forestalling and resolving social conflict and has worked against social solidarity and a sense of fairness in the growth process. Ultimately, it is such a sense of fairness that must underpin the model and provide it with its political legitimacy.

64. The prevailing development strategy has also proved deficient in terms of equity insofar as it has tended to neglect the welfare of vulnerable groups, notably women. As a result, a vast potential source of social and economic development remains untapped in many developing countries. The welfare of future generations, too, is jeopardized when, as has all too frequently been the case, environmental concerns are not adequately factored in to the policy-making process. If such weaknesses are not remedied, the long-term sustainability of the strategy itself could be threatened.

65. Finally, the model did not contain clear objectives concerning the external environment needed for domestic development policies to succeed. For example, pressures to liberalize financial markets did not adequately take into account the character and behaviour of globalized finance; trade liberalization in developing countries was not always complemented by significant

improvements in the access of developing countries to the markets in which they are competitive; and concerns about equity were not matched by increases in aid flows to developing countries. As a result, the prevailing international systems were not sufficiently supportive of development and sometimes even produced perverse effects.

Chapter II

TOWARD A NEW INTERNATIONAL COMMITMENT TO GROWTH AND DEVELOPMENT: ENHANCING THE GOVERNANCE OF THE GLOBALIZING WORLD ECONOMY

66. The challenge for the international community and for developing country policy-makers in the new millennium is to address effectively the shortcomings of the external environment and the constraints of underdevelopment in order to put developing countries back on the right track for integration into the globalizing world economy on an equitable basis.[10]

A. Committing to high and steady growth

67. A necessary - but by no means sufficient - condition for all countries and social groups to draw benefit from globalization is high and steady growth in national income and output. Macroeconomic policy-making needs to be explicitly targeted toward supporting growth and stabilizing it, while retaining the high priority accorded to maintaining relative price stability. In developing countries, this would require a shift in emphasis in the adjustment programmes worked out with the support of the multilateral lending agencies. The pursuit of sound, growth-oriented macroeconomic policies, moreover, needs to be complemented by a general social, legal and political environment conducive to the efficient functioning of markets and, in particular, to the development of the private sector, whose investment decisions are at the centre of growth.

68. The achievement of high and steady growth in the industrial countries is both an end in itself and a necessary condition for the proper functioning of the trade and finance systems. In the first instance, this requires that national authorities in the industrialized world maintain their economies at close to full employment while at the same time avoiding inflation. The interactions between economic performance in industrial countries and the ability of systems to provide effective support to development are manifold. It is evident that recession in industrial countries weakens primary commodity prices, increases protectionist pressures, and creates budgetary difficulties that work against the maintenance of aid flows. Likewise, an outbreak of inflation in industrial countries will give rise to increases in interest rates, which will have a negative impact on the debt service of countries that have borrowed from international capital markets.

69. There is need for more effective surveillance of macroeconomic policies of industrial countries to help achieve a high and inflation-free growth path for these countries as a whole, taking due account of the differences in inflationary and deflationary pressures that are likely to exist in each of them. The surveillance should be primarily preventive in character, acting to warn of impending unemployment and growth retardation, as well as of inflationary pressures reflected in the evolution of domestic prices of goods, services and assets or in the deterioration of external balances.

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[10] The background analysis for this chapter is contained in the *Trade and Development Report, 1999*.

B. Facilitating international trade, finance and knowledge

70. The systems governing finance and trade must genuinely and visibly meet the needs of developing countries as well as those of developed countries. The concept of "a level playing field", which is useful in discussions among developed countries, is not adequate when considering how to provide developing countries with equal opportunities to benefit from the systems. Equality of opportunity requires that systems be adapted so as to ensure that benefits theoretically available to all are in fact within the grasp of all, i.e. an "equitable playing field." This will require some flexibility in rules and procedures. Equality of opportunity also requires that systems have built into them educational, training and other activities designed to help developing countries to secure the knowledge and skills required to obtain maximum benefits from the systems.

1. The trade regime: Making markets work for development

71. Markets are not impersonal constructs. They work within the context of institutional frameworks - both domestic and international - that influence the results that they produce. Nowhere is this more important than as regards institutional arrangements governing world trade and arrangements for promoting competition.

72. A new round of negotiations in the WTO will need to be constructed around an agenda that is seen by all WTO members as balanced and containing issues of key importance to all. For developing countries, this means that the agenda will need to be considerably more development-oriented than was that of the Uruguay Round. Reference has already been made to the political repercussions in developing countries of the current crisis of globalization. If political leaders in developing countries are nonetheless to lend support to a new round, they must be able credibly to portray that round as an opportunity to address in a meaningful way a number of the problems facing their countries in their efforts to benefit more fully from international trade. Integration, as rapidly as possible, into the world trading system is not an end in itself. The central policy question for developing countries is how integration can be made to accelerate development.

73. A similar point applies to trade liberalization. The reduction of barriers to trade is an important ingredient in the approach to development of almost all developing countries. Because of this, decisions to liberalize unilaterally - or in the context of multilateral or regional liberalization exercises - are wholly legitimate. Again, however, the ultimate objective is not simply to remove trade barriers, but to do so at a pace and in a way that accelerate development. Adjustment problems of production are not just a function of longer adjustment periods, and cannot be resolved by such means alone. Complementary policies are needed in a number of areas, for example in respect of supporting proper access to investment financing and venture capital; facilitating access to new technologies and to match-making with foreign partners; active labour market policies, including retraining for new technologies and activities; unemployment insurance; and the provision of basic infrastructure, industrial utilities and complementary services. Government price controls should be avoided. Care will need to be taken to ensure that the removal of trade barriers contributes to achieving more competitive and well functioning domestic

markets that send proper signals to producers and investors. Competition policies are a necessary complement here. Trade liberalization should be timed in terms of the pace and extent to which the necessary complementary policies can be made to fall into place.

74. More generally, a balance needs to be struck between the desirability of a common and uniform set of rules, privileges and obligations applicable in the same way to all members of WTO, and the inescapable fact that WTO members are at very different stages of development. A development-oriented round must take up explicitly the question of adapting obligations and the timing of their implementation to the needs and capacities of the poorer members of WTO. The concept of special and differential treatment, adapted to the new context of globalization, remains a crucial tool of international trade policy to address the real needs of developing countries.

75. What are the main components of a development-oriented agenda for a new round of trade negotiations? They seem to fall in the following main categories:

- *Development-friendly further liberalization*, notably of agriculture, whilst taking into account the special role of agriculture in developing countries and the need for food security, and of services of particular export interest to developing countries, and increased levels of commitments on the movement of natural persons, backed by strict criteria for the use of economic needs tests;

- *Reduction of tariffs*, particularly peak agricultural and industrial tariffs for products of major export interest for developing countries;

- *Tighter disciplines on subsidies*, including the removal of agricultural export subsidies, a drastic reduction of production and investment agricultural subsidies;

- *Stricter disciplines on anti-dumping and countervailing duties*;

- *Special provisions for LDCs*, including bound zero tariffs and services liberalization in their favour;

- *Incentives for exports of environmentally preferable products* for developing countries, without creating new forms of conditionality;

- *Improvements in GSP arrangements*, including consideration of whether internationally agreed graduation criteria could be introduced and how conditionalities could be restrained in the various schemes;

- *Ensuring the accession of all developing countries and economies in transition to the WTO on fair and equitable terms*.

76. Special steps need to be taken to review competition policies, with an eye toward formulating and updating both national and international rules governing competition. The aim is to ensure that transnational firms do not use their large economic and financial power to engage in anti-competitive activities detrimental to local firms. It is particularly important that no artificial barriers to entry by local firms be created by non-local firms. New, challenging issues here are how and where to draw the line between activities such as cooperation arrangements among firms and strategic alliances, on the one hand, and anti-competitive behaviour, on the other; how to promote the adjustment of local firms to increased competition from foreign firms; and how to manage trade-offs between the gains expected from more competitive markets and social objectives, for example as regards employment and income distribution.

77. While competition policy remains in the main a matter for national legislation and surveillance, there is a growing trend towards international cooperation, as witnessed by the rapidly increasing number of bilateral and regional agreements, primarily among developed countries.

2. A financial architecture for development

78. International financial flows for development occur through borrowing abroad under commercial terms, through official development assistance, and through the regular lending activities of multilateral lending institutions, which borrow funds in international capital markets and lend the proceeds to developing countries.

79. Each of these three forms of external finance has an essential function in the overall architecture of finance for development, and that architecture cannot be deemed satisfactory unless each of its components is fulfilling its functions. Recent attention has focused on the role of financial markets in provoking the financial and economic crisis in East Asian developing countries. But the quiet crisis of poorer developing countries - in particular the least developed countries - is no less dramatic or in need of international remedial action.

80. The retreat of donor countries from the provision of *official development assistance* needs to be quickly reversed. The poorer developing countries need to be supported in their efforts to improve governance, mobilize domestic resources and provide basic services in such key areas as health and education and, more generally, formulate and execute poverty action plans as called for by the World Summit for Social Development. Donor countries should in particular commit or recommit themselves to rapid progress in meeting the targets set for assistance to the developing countries in general and to the LDCs in particular.

81. *Multilateral lending* is today inextricably linked to the issue of *debt*. The World Bank/IMF initiative on heavily indebted poor countries (HIPCs) introduced valuable new concepts into the international discussion of the debt problems of poorer countries. However, the initiative has been applied to too few countries, and where it has been applied, its implementation has so far been too slow. This is the result of two interlinked features of implementation: insufficient resources allocated to HIPC Trust Funds, and eligibility criteria that are far too stringent.

82. The time has now come to offer, within the broad framework of the HIPC initiative, a rapid and complete writing off of external debt to those countries prepared to channel the resulting budget savings into an internationally recognized programme for expanding essential services in health and knowledge infrastructure - in particular education and training. Such a bold approach would wipe out unpayable debt and restore normal relations between the ex-debtor country and the donor community. It would also further the essential goal of improving living conditions in the countries concerned and of establishing a direct link between debt forgiveness and social welfare.

83. To be effective, such a policy initiative would need to backed by funds which are additional to current aid flows, and it should be accompanied by measures in the form of technical and other assistance to ensure that national administrations are in a position to effectively undertake expenditure devoted to social purposes. There should also be a commitment to ensuring that future aid flows are available to poorer countries on appropriate terms.

84. *International financial markets* are central to the external financing of a growing number of developing countries. As indicated above, the financial crisis of East Asia has revealed the discrepancy between an increasingly sophisticated and dynamic international financial world and the lack of a proper institutional framework to regulate it. It has also highlighted the absence of a sufficiently wide set of policy options available to developing countries to influence the magnitude and character of flows to and from their countries. The rapid liberalization of financial transactions in developing countries without sufficient prudential regulation was an important element in the onset of the current financial and economic crisis.

85. These deficiencies in the present architecture need to be addressed. International action is needed towards:

- *Enhancing financial supervision and regulation, and ensuring the timely availability of information.* The challenge is to find regulatory and supervisory mechanisms that are global while still respecting differences in national financial structures and traditions. An important proposal in this area is the recommendation to create a world financial authority - or a standing committee for global financial regulation - in charge of setting the necessary international standards for financial regulation and supervision and of overseeing their implementation at the national level;

- *Securing greater autonomy for developing and transition economies with regard to policies affecting capital flows.* The growing dilemma for most countries with "emerging markets" is how to balance their wish to maximize the benefits from attracting international financial investors with their wish to protect themselves from the dangers inherent in globalized finance. Each country must resolve this dilemma in the way most appropriate to it. But some countries have found it useful, under some circumstances, to put in place market-based disincentives to financial inflows - for example by imposing a small tax on inward transactions or

imposing special reserve requirements on bank liabilities to non-residents. These disincentives are designed to diminish surges of capital moving into a country, and in particular to discourage inflows of those types of finance that are most volatile and thus likely to flow out unexpectedly. Disincentives to financial outflows may also have a role to play in specific circumstances;

- *Providing adequate international liquidity in times of crisis* through enhancing and using more actively the Compensatory and Contingency Financing Facility, establishing a low-conditionality facility for countries facing financial contagion, and enlarging the resources available to the IMF, including through innovative procedures such as borrowing directly from capital markets;

- *Increasing the policy instruments available for dealing with capital flight*: the situation of a country experiencing capital flight is not unlike that of a bank that is experiencing a massive withdrawal of deposits, or a firm that is facing a cut-off of credit and demands by creditors for immediate payment of all amounts due. All developed countries - and most developing countries - have procedures to help private banks or firms to deal with such situations. These procedures, which vary from country to country, typically consist of a standstill period, during which the firm is protected from its creditors. During this standstill period an orderly workout of debt is arranged in a way that protects the interests of both creditors and debtors, and ensures that both are better off than would have been the case if a disorderly bankruptcy had been forced on the debtor. During the standstill the firm is able to continue to function normally and to take on fresh financial obligations necessary for normal functioning. Analogous procedures in the international sphere should be introduced, including the possibility of standstill on the debtor country's external obligations and on capital account convertibility. In order to ensure that a country only invokes a standstill when faced with capital flight beyond its control, international recognition of the standstill would depend on its being sanctioned by the IMF. During the standstill period, which must be short, borrowers and lenders would seek to work out orderly arrangements for the rescheduling of debt. During the standstill, the IMF would provide financing required for the normal operation of the economy.

86. There can be no doubt that the implementation of the procedures sketched above would be neither easy nor straightforward. For example, in addition to the difficulties already apparent, the proper functioning of standstill procedures may also require certain changes in the way international lending agreements are written. But the elaboration of protective mechanisms at the international level at least equivalent to those available at the national level is necessary if countries are to deal successfully with globalized finance.

3. Towards enhanced governance of knowledge for development

87. The preceding chapter argued that inadequate skills and inadequate access to knowledge, information and technology reduce the ability of developing countries to take full advantage of the opportunities that in principle flow from their integration into the world economy. Addressing this issue would have to be part of any effort to enhance the governance of the world economy.

88. There are numerous categories of actors involved in the process of generating, diffusing and utilizing knowledge, and both national and international policy regimes influence, and are influenced by, their actions.

89. *Transnational corporations* play a powerful role in setting the pace of technological change, both through their own research and development efforts and through their linkages to research laboratories at home and abroad. They also make critical decisions with respect to which new technologies are introduced, when they are introduced, and in which markets they are introduced. The opportunities that their activities provide to developing countries and the limitations so far on those opportunities were described in the preceding chapter.

90. *Indigenous enterprises and research institutes in developing countries* do not have the resources required to undertake the volume of research needed to deal with the interdisciplinary nature of technological progress today. They will be looking for opportunities to adapt existing technology or secure access to it through business relations with other firms. The ability of developing country firms to access and sift through information sources is also limited.

91. *National policies in developing countries* have an important bearing on the ability of their firms to secure and derive commercial advantage from knowledge. Policies in the following areas are of particular importance: education and training relevant to knowledge-based activities; promotion of knowledge creation and adaptation through specialized research institutions; incentives for research and development by indigenous firms; and promoting channels of transmission of technology between indigenous and foreign firms.

92. *International regimes for the protection of intellectual property* provide frameworks within which knowledge is transformed into commercial products. These regimes are brought together under the umbrella of the World Intellectual Property Organization (WIPO), and are also embedded in the WTO through the Agreement on Trade-Related Intellectual Property Rights (TRIPS). These regimes seek to strike an acceptable balance between the need for intellectual property owners to secure an appropriate rate of financial return on their investment in knowledge, and the larger social benefits that would flow from rapid and unrestricted knowledge flows. In recent years, this balance has increasingly been struck more in favour of securing owners' rights than in allowing rapid diffusion, and this works to the disadvantage of developing countries. Patenting rules have been widened to cover an ever broader range of products, processes and life forms. This increases the difficulty of traditional forms of technological and economic catch-up through imitation and reverse engineering.

93. There is a myriad of issues relating to the processes through which knowledge, information and technology become available in developing countries. There is another set of issues relating to the capacity of economic agents in developing countries to make effective use of the knowledge, information and technology that are available. Both of these sets of issues now need to be addressed as a whole, taking into account their many interrelationships.

94. An international dialogue on these issues should be initiated. This dialogue should have the objective of identifying actions that could be taken to enhance the ability of developing countries to participate more effectively in a knowledge-based world economy. Since the principal actors come from the private business sector, that part of civil society concerned with knowledge production and consumption, government and international institutions, it would be appropriate - indeed necessary - for them all to participate in this dialogue.

Chapter III

UNCTAD: A KNOWLEDGE-BASED INSTITUTION AT THE SERVICE OF DEVELOPMENT

95. UNCTAD is an institution devoted to the generation and dissemination of action-oriented knowledge with the goal of steering processes of global change towards maximizing sustainable and equitable development. It does so through research and policy analysis, consensus-building, through intergovernmental deliberations, and the provision of policy advice and technical assistance aimed primarily at capacity building. In other words, UNCTAD's mission involves producing ideas, fostering agreements, and contributing to the implementation of agreements and ideas.

96. A central objective for UNCTAD must be to help developing countries understand how the world economy as a whole works. It should focus on the dynamic interplay of issues in the areas of money and finance, trade, investment and technological innovation rather than on the static study of each or some of these particular elements. The knowledge thus acquired should be used as a basis for redressing the imbalances in global systems and for overcoming faulty national strategies, with an emphasis on their interdependence.

97. Through this work, UNCTAD should help shape the "work in progress" of globalization. It should contribute to ensuring the overall coherence of the global system and to making it more conducive to the moral goals of fighting poverty, reducing inequality within and among nations, protecting the right of present and future generations to the preservation of the environment, integrating women on an equal basis and bringing the marginalized fully into the market economy. Its work should in all areas give priority to the perspective of development, with special emphasis on the development problems of LDCs, land-locked countries and small island economies.

98. This is certainly a very tall order for any single institution, let alone for one that is not exactly suffering from an embarrassment of riches. To succeed, UNCTAD will need to engage civil society and to draw on expertise to be found in non-governmental organizations, academia and the private business sector. It will also need to work closely with other organizations and entities within the United Nations system, and with regional organizations. Above all, however, UNCTAD will need to focus its work in those areas where it can have most impact. UNCTAD should do more of what it does well and less of what it does less well.

99. This is not a call for a sudden termination of whole areas of work in the secretariat. It is however a call for identifying the issue areas which could be described as the core of UNCTAD's mission and contribution, the axes around which other issue areas must be defined and structured. The remarks that follow will attempt to offer this identification, and suggest some of its implications. They do not purport to present a full-fledged work programme for the secretariat; rather, to offer a new, and more structured, way of looking at the universe of endeavours of the

organization. The corollaries of this approach in terms of redefinition of activities and of allocation of resources will need to be evolved in due course.

A. The core issue areas

100. UNCTAD does best what it was created for: to promote development through the right kind of integration of developing countries into the world economy and the trading system. Two qualifications are required at this point. The first is that, as already indicated, the quality of integration is more important than its degree. The contemporary world provides examples of countries that suffer from too much dependence on external financial flows, or on a few commodities, or on too much foreign direct investment concentrated in an "enclave". What is needed, therefore, is an integration which would help countries grow in a sustainable and equitable way.

101. The second qualification is that, although UNCTAD should concentrate more on the global systems than on their individual components, it should never lose sight of their intimate interrelationships. UNCTAD's focus should grasp the dynamic interplay between the external environment and national strategies, and how they are endlessly influencing and changing each other. UNCTAD cannot duplicate the work of organizations that, like UNDP, have a strong field presence and are country- (and not global system-) oriented. However, with UNDP we have recently started a project on globalization to test on the ground the links between policy advice and global analysis and research.

102. The main point is that the Manichean controversy about the relative importance of the external environment and of domestic strategies is largely over. In effect, one of the neatest definitions of globalization is that "everything that is global has become relevant to the national or local level and, to a lesser degree, everything local or national has some relevance for the global system".

103. It is clear, therefore, that UNCTAD's task is not simply to tell developing countries that they should integrate themselves into the world economic system as fast as possible, regardless of the price or the consequences. They should instead, with UNCTAD's assistance, negotiate their entry into the system, trying to the extent realistically possible, but to the very extreme of that possibility, to make the system more responsive to their needs. Rather than signing a contract without negotiating its clauses, it is a matter of striving to shape the conditions and pace of one's adhesion.

104. With this dynamic, interactive approach in mind, UNCTAD's work should be structured around three main issue areas: (1) research and analysis on the dynamics of globalization, interdependence and development; (2) trade and development; (3) investment and development.

B. Understanding the dynamics of globalization, interdependence and development

105. In the context of globalization, development issues can be understood only in relationship to the major trends affecting growth and change in the world economy. UNCTAD needs to intensify its efforts to help clarify and increase understanding of global trends and the nature of the sources of growth in the world economy, with special reference to their implications for development. The intergovernmental machinery should periodically review developments in the world economy, focusing on the interdependence of money, finance, trade, investment and technology, and its impact on developing economies. The particular needs of the LDCs and of African countries should continue to receive special attention.

106. The work programme of the secretariat should equally focus on the interdependence of the main areas of the world economy, with an emphasis on the impact of macroeconomic management on the development prospects of developing countries. Financial and monetary matters should be brought in as part of the understanding of the global economic dynamics rather than as stand-alone areas of work. The area of financing for development should be given special attention. UNCTAD should examine systems and mechanisms for an effective mobilization of resources for development, focusing most particularly on the role of public and private sectors, the sustainability of debt, and the interaction between external and internal resource mobilization, notably ODA, debt and private financial flows. This is especially appropriate as most of the debate set off by the Asian crisis about financial architecture has concentrated on the plight of the so-called 29 emerging markets. UNCTAD's duty is to make sure that the other 130 or so developing countries should have some access to finance for development, through ODA, debt relief or innovative ideas for the development of capital markets. The three flagship reports - the *Trade and Development Report*, the *World Investment Report* and the *Least Developed Countries Report* - must be made gradually more integrated and complementary.

107. UNCTAD needs further to contribute to the generation and spread of knowledge on development issues by examining development experiences in the context of the global phenomena described above and drawing lessons as regards development policies. The analysis should be comparative, with particular emphasis on positive and negative aspects in dealing with openness to the world economy.

108. As far as possible, research and analysis should be action-oriented and amenable to use as a basis for multilateral agreement through the intergovernmental process and for application on the ground.

109. Of special importance is work on debt, both in analysis and in providing support to debt management in developing countries and countries with economies in transition. UNCTAD has recently submitted proposals for debt relief in its capacity as the focal point for debt problems in the United Nations system. This work should continue. The G-8 decisions in Cologne, while involving significant steps forward, have not exhausted the range of possible policy options. This is work where, as in trade liberalization, the "bicycle argument" holds true: there must be constant movement to avoid a fall.

110. In implementing its work programme the secretariat should devote particular attention to the specific problems of countries with economies in transition and of developing countries with structurally weak and vulnerable economies. Cross-cutting issues such as ECDC, poverty alleviation and the empowerment of women should also be given proper attention.

C. Trade and development

111. Trade is the soul of UNCTAD's work. It is not by accident that it is the only specific component of development that was singled out in the organization's name. This naturally has to do with the birth of UNCTAD in the mid-1960s, when the slogan "trade, not aid" became part of the international discourse.

112. This rationale is still true today. The establishment of the WTO makes UNCTAD's role in this field more indispensable than ever, as can easily be seen from the discussions regarding the implementation of the Uruguay Round agreements.

113. Building upon the solid foundations of cooperation started with WTO, UNCTAD should consolidate its contribution in two major areas. The first is the prenegotiation and negotiation phases of agreements, during which the focus should clearly be on the positive or proactive agenda for developing countries. The goal is to help them prepare and take part in the forthcoming trade negotiations where, this time, hopefully, development would occupy the centre stage. Work on commercial diplomacy would be a central element of UNCTAD's effort to create or develop institutional capacity for trade. Assistance for accession to WTO also falls into this field. UNCTAD must in addition help developing countries assess the implications of initiatives designed to expand the frontiers of the multilateral trading system so as to increase the scope for the use of trade sanctions. Analytical work aimed at uncovering and understanding new trends in the patterns of trade, and their implications for developing countries and the trading system as a whole, is also a vital part of work in this area.

114. The second area is implementation, with strong emphasis on building or improving institutional capacity to take advantage of trade opportunities created by the multilateral system, regional agreements or Lomé-type cooperation agreements.

115. Thus, while UNCTAD's work on trade should include supporting developing countries, particularly the LDCs, and countries with economies in transition in the forthcoming multilateral trade negotiations, the reach of its activities is broader. They must embrace an analytical understanding of trends and developments in international trade and markets, with a view to assisting developing countries to take advantage of trading opportunities opened up by past trade negotiations, as well as those that will emerge from future negotiations. They must cover traditional topics of trade and development - for example the conundrum of commodity-dependent exporters - and new and emerging challenges for developing countries - such as electronic commerce.

1. A positive agenda for developing countries in trade negotiations

116. A central component of UNCTAD's work on trade is what we call a positive agenda for developing countries in the forthcoming negotiations. Our role here is to assist developing countries identify the trade issues in which they might have an interest, understand them thoroughly and examine policy options for negotiation. It is not the role of UNCTAD, of course, to suggest preferred options; Governments themselves must decide which options they prefer. But they should do so on the basis of an informed understanding of the complex range of issues involved. In this way, the negotiations themselves will be enriched and their results made more meaningful and lasting.

117. The central areas in which developing countries need to define policy objectives are those identified in the discussion in chapter II above on a development-oriented agenda for a new round of trade negotiations. I shall only flag here some particularly burning issues.

118. The issue of modernizing the WTO concept of "special and differential treatment" is one of them. It would need to be addressed by identifying specific instances in which significant numbers of developing countries suffer particular handicaps in competing in international trade or in meeting their trade obligations or exercising their trade rights - for example as regards dispute settlement. In all of this, in-depth analysis by the secretariat and others in indispensable.

119. Competition law and policy is another crucial issues since, as argued above, economies and, for that matter, the global economy will not be able to reap the benefits of liberalization, privatization and deregulation unless markets are and remain competitive. UNCTAD should continue its analytical and operational work on competition law and policy, with special reference to its international dimensions, to the development implications of policy alternatives and to the need to create a competition culture.

120. Environmental considerations have come to interact with trade policies, and this trend seems likely to continue. UNCTAD can play a role in helping developing countries identify areas in which they can take advantage of trading opportunities that may arise on account of environmental concerns, and in helping developing countries work out a positive agenda on trade and environmental issues.

121. These activities should be reflected in the intergovernmental machinery of UNCTAD (perhaps through greater emphasis on expert meetings, which have in the past proven to be an effective means of shedding light on the interests of developing countries in various areas of trade in goods and services). They should also relate directly to technical assistance activities so as to ensure that the findings of studies and expert meetings could be followed up in the field. Strengthening capacities at the national level is essential here. A prime example would be assistance to national institutions - both within and outside government, as the case may be - to develop their own training courses on commercial diplomacy, the secretariat should work directly with Governments to assist them in formulating and pursuing their negotiating objectives. Another example is given by the tripartite programme of technical assistance in trade capacity building for

selected African countries (JITAP) carried out jointly by UNCTAD, WTO and ITC, which provides a model for capacity-building in the trade area.

122. Regional and subregional integration and cooperation processes provide opportunities for developing countries to enhance their competitiveness and can facilitate their further integration in the world trading system. UNCTAD should assist such groupings in those efforts, while keeping under review their impact on the evolution of the multilateral trading system.

2. The importance of commodities

123. For many developing countries commodities continue to account for the bulk of export earnings. UNCTAD should pursue its activities to assist developing countries in coping with the difficulties that result from this commodity dependence and in maximizing opportunities that arise. UNCTAD should continuously examine and analyse international commodity markets and contribute to providing statistical and other data to assist market transparency.

124. More specifically, UNCTAD should help developing countries assess policy options to increase the efficiency and productivity of commodity sectors and to advance in diversification, processing and marketing and distribution chains, where value added is particularly high. Assistance should also be provided to help developing countries maximize the benefits from participating in commodity markets, both physical and futures. In connection with the latter, UNCTAD should assist developing countries in utilizing market instruments for the management of price risks, as well as for mobilizing investment resources.

125. UNCTAD should also contribute to the setting up and development of mechanisms for international cooperation in the field of commodities, notably forums where producers, consumers and traders - both government and private companies - can exchange information and perspectives and improve the rationality of decision-making in the commodities field.

3. Services and electronic commerce

126. The enormous potential for expanding service exports from developing countries, including through electronic commerce, is beyond doubt. UNCTAD should assist in identifying opportunities in this regard and in formulating national and sectoral strategies for strengthening their export capacities.

127. UNCTAD should intensify its activities designed to assist developing countries realize maximum benefit from the expected growth of electronic commerce. Activities would include producing analytical and statistical studies regarding the expected impact of electronic commerce on the development and trade perspectives of developing countries; assisting developing countries in the formulation of policy approaches on issues relative to electronic commerce; providing help in the design and implementation of policies and programmes to enhance the ability of small and medium-sized enterprises and microenterprises to benefit from electronic commerce, and to

enhance the ability of developing countries to participate actively in WTO discussions of electronic commerce, particularly those related to negotiations under GATT.

4. Trade efficiency

128. In today's highly competitive trading environment, reducing the costs of engaging in trade must be a priority for developing countries. UNCTAD must intensify its assistance for this purpose as an integral part of helping developing countries realize the full benefits of their participation in the international trading system. UNCTAD's activities would need to cover the areas of transport, customs, trade-related finance, and relevant related issues of national and international legal regimes. Assistance would focus in particular on helping countries develop the skills and expertise needed to deal with these complex issues and with the rapid changes that are occurring because of changes in technology - especially information technology. Activities should include assistance in identifying the administrative and regulatory measures needed to create an environment conducive to the development of transport capabilities; assistance in preparing to negotiate and to implement bilateral and regional transit trade agreements and arrangements, and in undertaking other activities designed to improve transit systems; and continued assistance with customs reform and automation.

129. Special attention has to be placed on furthering the synergy and coordination between the work of the trade subprogramme in the field of implementation of trade agreements and the tasks assigned to the subprogramme on services infrastructure for development and trade efficiency. Electronic commerce, on the one hand, the modernization of customs, the reduction of transport and other transaction costs, on the other, must constitute integral parts of an overall approach destined to overcome institutional constraints to the implementation and good use of trade agreements. UNCTAD's specific contribution here will mainly be in providing policy advice, built on analytical work and intergovernmental agreement, and technical cooperation.

D. Investment and development

130. Investment - the creation of additional capacity for production - is at the heart of development. Investment involves the creation of physical and intangible assets, mainly by private firms. In today's knowledge-based economies, it is closely intertwined with the technological capacity of countries. Indeed, the developmental impact of investment can largely be assessed by the extent to which it involves the transfer, or makes possible the generation, of technology. Firms play an important role in investment decisions, and are central to the realization - or otherwise - of their development potential. Hence enterprise development is inextricably linked to the volume, composition and development impact of investment in a country. In a globalizing and liberalizing world economy, enterprise development increasingly involves the internationalization of enterprise activities in a growing number of countries.

131. Given its intergovernmental nature, UNCTAD's focus in this area should be on the international aspects of all forms of investment, notably foreign direct investment (FDI), as well as on international flows of technology and the internationalization of enterprise. It is clear,

though, that international investment and technology flows can only be a complement - at best a catalyst - of domestic efforts. A programme of work in these fields for UNCTAD should therefore include the question of the linkages between the international dimension of investment, technology flows and enterprise development and the evolution of national efforts, policies and challenges in these areas.

132. More specifically, UNCTAD's work in this area should assist developing countries to maximize the net benefits to their respective economies from international flows of investment, in particular FDI, and the international activities of firms undertaking FDI. In the first instance this involves the ability to attract international investment of the kind that increases the degree of local productive and innovative content and generally establishes strong linkages with the host economy. Developing countries also need assistance, moreover, in harnessing FDI to their development objectives, including, in particular, the building up of strong domestic economic and technological bases for development and improved standards of living for all sections of their people. International investment must be seen as a means to strengthen developing countries' technological capacities by taking advantage of the opportunities for technology transfer that globalization provides through FDI as well as through inter-firm arrangements, alliances, partnerships and technology cooperation of various other kinds. It should also be seen as a means to foster viable and internationally competitive enterprises by maximizing the use of opportunities for learning available through increased investment, technology and trade linkages between countries via enterprise cooperation and networking (particularly SMEs), promoting competitive markets and, in particular, examining which enterprise issues may require attention at the international level.

1. Research and policy analysis

133. UNCTAD's future work should aim at improving developing countries' understanding of the impact of foreign direct investment, through transnational corporations, on international trade, technology flows, enterprise development and their development prospects generally. This would entail periodically reviewing the evolution of foreign direct investment in the world economy and the policies and practices of transnational corporations, so as to identify and enhance understanding of global trends, in particular as regards new and emerging corporate strategies.

134. Special attention needs to be given to improving the understanding of the interdependence of foreign direct investment, domestic investment, technological change and technology flows, the policies and practices of multinational firms and the evolution of corporate governance.

2. Capacity building

135. Improved understanding of the issues in these interconnected areas needs to be translated into effective assistance at the national level to formulate and implement policies to attract and benefit from international investment, strengthen technological capacities and foster enterprise development. UNCTAD should:

- Assist developing countries with the formulation of policy options for the attraction of foreign direct investment, including the question of incentives, and the optimal utilization of FDI in national development strategies in two respects: (a) building links between FDI and supplier networks of local small and medium-size enterprises; and (b) using FDI as an effective way of integrating countries into global networks of production and distribution or as a source of know-how, managerial skills, etc;

- Help countries in developing an integrated policy approach to investment, technology and enterprise development, notably through integrated national investment and technology policy reviews; and

- Assist developing countries on the best policies for the development of local enterprises as centres of continuous innovation and as the main actors of a national market economy capable of supplying domestic markets and thus acquiring the ability to export.

136. These activities should be integrated. No single aspect, including FDI, should be treated in isolation but rather as part of an interdependent whole that would equally include practical applications: investment promotion agencies, investment and technological policy reviews, investment guides for LDCs, and negotiation of bilateral or regional investment treaties among developing countries.

3. Promoting consensus

137. UNCTAD's analytical and operational activities need to be translated into international consensus to facilitate arrangements for attracting and benefiting from international investment, enhancing technological capacities and promoting enterprise development. This is particularly so in the light of the rising incidence of bilateral and regional investment treaties, as well as double taxation arrangements. In view of the growing discussion of multilateral aspects of investment, UNCTAD should also continue to help developing countries to fully understand the implications of such discussions for their development.

138. A number of international agreements, including TRIPs, TRIMs and GATS, incorporate clauses related to technology transfers. UNCTAD should examine those clauses in order to propose ways to operationalize them in a development-oriented manner.

139. The need for international consensus also extends to cross-border enterprise issues and the internationalization of firms, including especially the harmonization of policy approaches to specific enterprise issues, as is the case with UNCTAD's work in the area of international standards on accounting and reporting.

E. Least developed, land-locked and island developing countries

140. In fulfilling its development mission, UNCTAD has always devoted particular attention to the problems of countries in greatest need. Successive Conferences have indeed adopted specific work programmes and activities designed to address the needs of the least developed countries (LDCs), of Africa - many of whose constituent countries are LDCs - and of land-locked and island developing countries. UNCTAD has also played an active role in preparing and following up the United Nations Conferences for the LDCs in 1980 and 1990 and is currently engaged in organizing the third United Nations Conference on LDCs in 2001.

141. While many of these countries have been able to register progress in terms of both social and economic development in recent years, their basic indicators still reveal a wide gap vis-à-vis the other developing countries. The debt overhang, inadequate external finance - exemplified by the decline in ODA - limited market access for exports, severe supply-side constraints, deterioration in human welfare and the increasing number of humanitarian and natural disasters have adversely impacted on the economic performance of LDCs. This scenario is exacerbated by the fact that the majority of the population of LDCs, notably women, remains trapped in abject poverty and suffers from social exclusion. There is, therefore, a need for continuous international cooperation in addressing complex humanitarian and economic emergencies, including strengthening the supply response of the affected countries, as well as for increased external support from the LDCs' development partners. The Programme of Action for the LDCs for the 1990s affirmed among other principles that the LDCs have the primary responsibility for elaborating and implementing effective development strategies and policies, but that their development partners have an obligation to provide adequate support to these efforts.

142. Through its research and analysis work, as well as its technical cooperation programmes, UNCTAD should continue to support the efforts of LDCs to become integrated into the global economy, particularly by implementing programmes aimed at improving their supply capacity within an environmentally sustainable development framework. In this context, particular attention should be given to the specific needs of land-locked and island LDCs. UNCTAD's work should also focus on institution-building to address trade policy issues and on enhancing capacities to formulate and implement trade policies consistent with WTO obligations. Similar support should be given to African countries seeking to benefit from their participation in the multilateral trading system.

Chapter IV

PARTNERSHIPS AND EFFECTIVENESS: INCREASING UNCTAD'S IMPACT ON DEVELOPMENT

143. Thinking and acting for development are central to the mission of the United Nations and are the *raison d'être* of UNCTAD. Thinking and acting - analysis and intergovernmental deliberation, on the one hand, and technical cooperation on the other - must be integrated if maximum impact is to be achieved. UNCTAD's analyses and policy conclusions should be at the root of its advice and operational assistance; the latter, in turn, should inform UNCTAD's analytical and normative work by illuminating the issues that need attention, generating field data and experience to advance understanding, and providing feedback on policy implementation. It is precisely these synergies that constitute UNCTAD's - and indeed the United Nations' - comparative advantage in international development cooperation.

144. And yet it is clear that UNCTAD cannot fully perform its developmental role in isolation. To begin with, its work takes place in the context of a constellation of development-oriented intergovernmental organizations and agencies, within and outside the United Nations system, whose activities touch on areas of concern to UNCTAD. Collaborating and complementing efforts, dividing up labour in the most efficient manner and avoiding unnecessary duplication are prerequisites for the effective delivery of UNCTAD's development work.

145. The joining of efforts, however, must go further. As with development work at the national level, international development efforts must take account of all the stakeholders in a globalizing world economy. Recent experience has demonstrated clearly the ability of non-governmental groups to enrich public discussion, bring forward voices that may not otherwise be adequately heard, and improve on the effectiveness and the relevance of development activities in the field. The importance of the private business sector in international development cooperation is, of course, self-evident in a context of globalization.

146. UNCTAD's work should therefore be guided by a dual effort at integration and collaboration: integration of its analytical, normative and technical cooperation work, and collaboration with other development-related international organizations, as well as with civil society and the private business sector.

A. Technical cooperation

147. Technical cooperation involves two distinct kinds of activities:

- *Advisory services* at the country, sub-regional and regional level. They stem from specific requests from Governments and intergovernmental organizations, and are in addition valuable to the secretariat in that they offer the possibility of enhancing its understanding

of development problems and opportunities. They also facilitate the exchange of experiences among countries.

- *Operational activities*, focusing on capacity-building and including *human resource development programmes* whose content draws on the analytical work of the secretariat; provision of *software* and related advisory and training programmes; and *dissemination of information and data* in the areas of work of the secretariat.

1. The coherence of regular and extrabudgetary programmes: the challenge of priority-setting

148. The bulk of the technical cooperation work of UNCTAD is financed with dedicated extrabudgetary resources. This is in line with the conventional wisdom in the United Nations that activities whose sole purpose is to address the specific needs of a given individual country should not pose a burden on the regular collective resources of the Organization. In recent years, extrabudgetary funding for technical cooperation programmes and projects in UNCTAD has amounted to between one-third and 30 per cent of the total resources available to the secretariat.

149. Since the last Conference, it has become increasingly clear that the distinction between analytical and operational work and the related rationale for financing the latter from extrabudgetary resources are in need of revision. To begin with, the final document of UNCTAD IX explicitly included advisory and technical cooperation activities as part of the mandated regular programme of work of the UNCTAD secretariat. As a result, some specific technical cooperation activities are included in the UNCTAD programme budget. Conversely, some of the extra-budgetary resources fund projects that include research and policy analysis as a prior step to the subsequent carrying out of policy advice and operational work.

150. Perhaps more importantly, the technical cooperation work financed with extrabudgetary resources needs backstopping, both administratively and substantively. For these purposes projects contain a provision for support costs or overheads, which currently range from 10 to 13 per cent of total project delivery costs. However, studies of project funding for a wide range of national and international organizations suggest that a more realistic estimate of overheads would be of the order of 25 per cent. This means that a substantial part of the backstopping of extrabudgetary projects falls on the regular budget, notably in the form of the time of regular staff. The initiation of new technical cooperation activities in the form of externally financed projects therefore involves subsidization from the regular budget and raises the question of defining the maximum level of extrabudgetary operational work consistent with the resources available for backstopping in the secretariat. In other words, there is a limit to the absorptive capacity of the secretariat to undertake additional externally financed technical cooperation activities. While the matter requires further detailed consideration, the evidence seems to suggest that in certain areas the secretariat has already reached that limit, and that the backstopping of discrete technical cooperation activities might begin to interfere with the delivery of the regular programme of work of the secretariat. How to address this issue is a major challenge for the management of the work programme in UNCTAD.

151. Part of the answer lies precisely in increasing the linkages and synergies between regular programme work, notably research and analysis, and technical cooperation activities. This was specifically mandated by the final document of UNCTAD IX ("A Partnership for Growth and Development" (TD/377, paragraph 96) and as a central element of the technical cooperation strategy adopted by the Trade and Development Board in 1997. Important progress has been made in this connection, in that some of the major technical cooperation programmes initiated since the Conference have been designed both to take advantage of and help advance the analytical work of the secretariat. An example is work on the positive agenda for developing countries in trade negotiations, where analysis of trade issues carried out by the secretariat under the regular programme is informing operational activities through training and discussion seminars and workshops in the field of commercial diplomacy. Another is work on issues concerning a possible multilateral framework for investment, which involves advancing understanding of the issue through research and analysis and disseminating it through policy advice; yet a third example is the increased integration of analytical work on debt sustainability and operational work on debt management (being carried out in cooperation with the World Bank). In these cases, as well as in others, regular budget work with operational components has been expanded through the setting up of extrabudgetary funded projects.

152. However, more can and should be done to strengthen the creative synergy between analytical and operational work. This raises the vexed question of priorities, i.e. of the bases on which decisions are taken to embark on new technical cooperation activities, both programmes and specific projects.

153. The answer to this question is complex. Technical cooperation programmes and projects result from the conjunction of three different sets of factors:

- Requests or expressions of interest from potential beneficiaries, notably developing country Governments or institutions; these are sometimes the result of needs assessments or programming exercises undertaken by UNCTAD or by other organizations, e.g. UNDP;

- Decisions by donors - whether UNDP, other multilateral or bilateral - to support given activities; the decisions might be specific or might be in the form of broad orientations within which the secretariat can allocate the funding in consultation with the donor;

- The secretariat's evaluation of the advisability of pursuing the proposed programme or project. This, in turn, is based on the following criteria: (a) does UNCTAD have the mandate to deal with the issue at hand and does the topic of the proposed activity fall within the priorities of UNCTAD's work programme? The starting point to address the question of mandates is paragraph 97 and other relevant paragraphs of "A Partnership for Growth and Development", which set out the areas on which UNCTAD's technical cooperation should focus; other sources of mandates include General Assembly resolutions, the orientations contained in the medium-term plan, the programme budget and decisions of the Trade and Development Board; (b) does the secretariat have the

technical competence and the resources to backstop the programme or project without detriment to other mandated activities? (c) in what way would the proposed activity draw on, and contribute to, UNCTAD's regular work? (d) how committed is the potential beneficiary to the programme or project? (e) does the activity enhance the capacity of the beneficiary countries to promote their own development? The last two elements are particularly important: technical cooperation should essentially be demand-driven and capacity-building.

2. The coherence of regular and extrabudgetary programmes: the management of resources

154. The enumeration above should already give an idea of the pitfalls involved in trying to set out a strategy for the coherence of budgetary and extrabudgetary programmes. To begin with, it is clear that such a strategy does not only involve decisions by the secretariat; the secretariat's agreement is a necessary condition to proceed, it is by no means a sufficient one. Nevertheless, the secretariat's input into these decisions is an important one and, of course, it is the secretariat's subsequent responsibility to monitor the implementation of the projects and evaluate them. Improvements in the handling of these functions within the secretariat can be of help.

155. The challenge here is to balance, on the one hand, the need to allow Divisions and programme managers to exercise their creativity and entrepreneurship in responding to approaches by potential beneficiaries and donors, thus maximizing the organization's responsiveness to the wishes of member countries; and on the other, the need for some centralized priority-setting and control to avoid dispersion and fragmentation.

156. In the aftermath of UNCTAD IX, at a time when the organization was trying to emphasize its practical relevance to member States, the decision was made to allow Divisions and programme managers to exercise a substantial amount of managerial discretion at the initial stages of project identification, formulation and funding. Central management was called upon to intervene after some substantial progress had been made in defining activities and their sources of finance. The result has been a vibrant and very much appreciated technical cooperation programme, which in fact attracts more requests for new activities than can be fitted into existing resources. The downside, however, has been a certain amount of fragmentation and, in one case, a loss of control over project activities. The time has come to redress the balance in the direction of a greater degree of central oversight at critical stages of the technical cooperation programme and project cycle. This will allow both a closer substantive integration of regular and extrabudgetary work and a more efficient management of resources of both kinds, including easier decisions as to the availability of resources to backstop technical cooperation activities.

157. Specific measures already introduced in this connection include:

- The establishment of a new Resources Management Service which integrates financial and personnel management for both regular budget and extrabudgetary activities. This will

allow tighter financial and administrative control of technical cooperation activities, including field ones;

- The extension of the coverage of the logical-framework-based planning, monitoring and assessment instrument already being applied with respect to regular programme activities to cover extrabudgetary programmes and projects. This is being implemented currently and should considerably strengthen the monitoring and evaluation of technical cooperation.

3. The role of member States

158. As indicated, however, technical cooperation programmes and projects are largely determined by the preferences of member States, both beneficiaries and donors. Indeed, some of the difficulties noted above are a function of the secretariat's reluctance to turn down requests from Governments to set up projects in which they are interested as recipients or funders.

159. Until now, a central principle of technical cooperation in the United Nations has been that, within the context of broad policy guidance, collective intergovernmental mechanisms have no role in the relations between donors, recipients and the secretariat in technical cooperation projects. This follows from the funding arrangements described above. In the light of the increasing intertwining of regular and extrabudgetary activity, it may be necessary to consider alternative procedures and mechanisms. The central elements of the new approach would be a substantial increase in the predictability of extrabudgetary resources for technical cooperation, coupled with a strengthening of mechanisms for intergovernmental monitoring of technical cooperation programmes and projects, as well as strengthening of instruments for evaluation and assessment of impact.

160. The following could be elements for a new integrated approach:

- The establishment of a General Trust Fund to which both earmarked and unearmarked funds could be contributed, preferably on a multi-year basis, and to which existing donors would be invited to transfer their existing trust funds, retaining their specific and separate character if so wished. This proposal was first made in a report by independent consultants in 1994[11], but was not taken up by the intergovernmental machinery subsequently; such a General Trust Fund could in due course subsume arrangements currently under consideration to secure the financial sustainability of related technical cooperation programmes;

- The strengthening of the process of consideration of the indicative rolling three-year plan for technical cooperation by the Trade and Development Board. This could provide a

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[11] Margaret J. Anstee, assisted by Leelananda de Silva, *Technical Cooperation: Implementing the Cartagena Commitment*, Report by Independent Consultants to the Trade and Development Board of UNCTAD, TD/B/40(2)/14, 4 March 1994.

structured occasion for a dialogue between donors, beneficiaries and the secretariat on the broad contours of the technical cooperation programme, leading to guidelines to be implemented by the secretariat.

- The strengthening of the process of consideration by the Working Party on the Medium-term Plan and the Programme Budget and the Trade and Development Board of the annual report on technical cooperation. Again, the result should be conclusions on the overall shape of the programme, its relationship with the regular programme of activities and its adherence to the agreed priorities of the latter. Subsequent discussions could assess the extent to which the outcomes of the discussions are implemented.

- The strengthening of the process of monitoring and evaluation of the implementation and impact of technical cooperation activities. Monitoring of the implementation of individual projects should remain the responsibility of the corresponding project officer; however, monitoring of overall programme implementation is the responsibility of the central Programme Planning and Assessment Unit (PPAU). As indicated above, this function is being reinforced through the extension of the logical-framework-based mechanism to technical cooperation activities. Continuing evaluation is also the responsibility of PPAU; however, the practice of conducting special independent evaluations of major programmes should be retained and strengthened. At least two such evaluations should be conducted in each biennium. The results of these evaluations should be inputs into the annual discussion of technical cooperation in the Working Party and the Board and should lead to concrete recommendations on improving the impact of technical cooperation programmes.

161. Overall, the priorities indicated in the outcome of UNCTAD IX remain valid. Technical cooperation should be directed to developing countries with the greatest need. LDCs should have priority. UNCTAD's participation in the implementation of the Integrated Framework for Trade-Related Technical Assistance to the Least Developed Countries and in the Joint ITC/UNCTAD/WTO Integrated Technical Assistance Programme for Selected Least Developed and Other African Countries will continue to be strengthened. Specific needs of developing countries with structurally weak and vulnerable economies should be addressed, and technical assistance should continue to be provided to countries with economies in transition. As already mentioned, technical cooperation should be demand-driven and aim at capacity-building. UNCTAD's well established technical cooperation programmes, both advisory services and operational activities, e.g. ACIS, ASYCUDA, DMFAS and TRAINFORTRADE, should be continued on the basis of the recommendations of the evaluations already carried out. The Trade Point Programme will be re-assessed, also on the basis of the recommendations of the evaluation, and proposals about its future will be made. The link between these programmes and the analytical work of the Divisions concerned will be strengthened.

B. UNCTAD and other international organizations

162. Ever since its creation, UNCTAD has had a mandate to cooperate and coordinate its work with other international organizations. General Assembly resolution 1995(XIX) which established UNCTAD in 1964 states in paragraph 18 that the Trade and Development Board "shall, as required, make arrangements to obtain reports from and establish links with intergovernmental bodies whose activities are relevant to its functions. In order to avoid duplication it shall avail itself, whenever possible, of the relevant reports made to the Economic and Social Council and other United Nations bodies". According to paragraph 19, the Board "shall establish close and continuous links with the regional economic commissions of the United Nations and it may establish such links with other relevant regional intergovernmental bodies".

1. Coordination: the goals

163. The objective of coordination among organizations is to foster international cooperation so that member States benefit from the respective strengths of different organizations, each of which brings its own expertise and perspective to the problems at hand. However, the means to this end are being widely discussed, as traditional modes of operation, patterns and practices are being challenged. Practically all parts of the system are undergoing change in one form or another. The system as a whole is requested to deliver more with less. And increasingly, member States judge performance not in terms of the system's individual components, but in terms of the impact of the system as a whole. They are seeking greater unity of purpose and coherence of action and clear-cut, concrete results from its collective efforts.

164. A common thrust that emerges from current intergovernmental discussions and positions on reform is the perceived need for the organizations of the system to concentrate on core areas of competence, while at the same time strengthening joint and collaborative actions. This is viewed as a way to maximize cost-effectiveness, make use of the complementarities of organizations, and ensure that the system is able to address in an integrated manner the growing number of interrelated global issues requiring comprehensive solutions. This is largely the approach that has been guiding ACC's work, which is placing renewed emphasis on clear delineation of responsibilities within the system on the one hand and the launching of specific joint activities that are result-oriented and time-bound on the other.

165. At the inter-agency level, ongoing measures to enhance programme complementarity need to be accompanied by a renewed effort at identifying and focusing on common priority objectives and priority themes; developing joint arrangements to respond to emerging requirements; and concerting overall policies and strategies.

2. UNCTAD and other development-oriented organizations: issues concerning the division of labour

166. The UNCTAD secretariat has developed a large number of links with development-oriented international organizations. In terms of format, they range from working-level

operational links to memorandums of understanding and other formal agreements; in terms of substance, from simple exchanges of information and documentation to joint projects. They include organizations members of ACC, other international organizations, international financial institutions and regional development banks, regional and subregional organizations, and commodity, investment and trade associations.[12]

167. The crucial issue, as suggested above, is to define relationships with other organizations that take full account of comparative advantages, maximize synergies, and avoid unnecessary duplication. In particular, discussions are under way in this connection with the regional commissions and with the International Trade Centre. With the former, the natural division of labour is one in which UNCTAD covers global aspects but relies on the Commissions for the more detailed treatment of regional aspects. A recent example is the preparation of a joint paper with the Economic Commission for Europe on "The Russian Crisis", issued in October 1998. In the case of ITC, discussions have centred on the respective roles of the two organizations in technical cooperation provided to Governments or delivered at the level of individual firms. These and similar discussions will be pursued further on the basis of the priorities and core areas defined at UNCTAD X.

168. The international community has acknowledged the important practice of examining issues that affect development from different vantage points. The need to safeguard the scope for independent thinking exists, particularly in the field of global economic analysis, which constitutes an important part of UNCTAD's mandate. Although many organizations undertake such analyses, each one does so from its own perspective. This freedom of expression guarantees intellectual pluralism and the healthy competition of ideas. One should therefore distinguish between those areas (e.g. collection of statistics) where the involvement of more than one organization would mean duplication and those where, on the contrary, alternative views enrich the current international debate on economic and development issues.

C. UNCTAD, civil society and the private sector

169. Fuller participation by civil society in its activities is seen more and more by the United Nations family as an important avenue for enhancing effectiveness. Consequently, there has been an increasingly explicit pursuit of partnerships with non-governmental actors by the United Nations system as a whole, a development that was endorsed by the Secretary-General of the United Nations in 1999.

170. UNCTAD has been in the vanguard of this process. At the United Nations International Symposium on Trade Efficiency (Columbus, Ohio, United States, 1994) non-governmental organizations (NGOs) and business leaders had the possibility to discuss directly with government representatives policies and actions aimed at improving the participation of SMEs and enterprises

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[12]Comprehensive information on UNCTAD's cooperation with international organizations is contained in document UNCTAD/EDM/Misc.54, dated 5 June 1998, updated in the notes on the implementation of the recommendations of the Mid-term Review of 22 October 1998 and of 28 May 1999 (UNCTAD/ISS/Misc.239).

from developing countries in international trade. In this connection, the Secretary-General's report to UNCTAD IX, published in early 1996, stated the following:

> *[A] case could ... be made in favour of providing, in economic discussions, a space for the participation of those individuals - producers and consumers alike - who will put into practice the decisions on production and consumption formally arrived at by Governments. It is hoped that in the near future we shall be far-sighted enough to begin the integration of the private sector and of other new actors into our daily operations.*

1. Partnerships with the private sector

171. The "Partnership for Growth and Development" (para. 118) mandated UNCTAD to enhance the participation of civil society in its activities "to build a lasting partnership for development between non-governmental actors and UNCTAD". The Partners for Development Summit (Lyon, France, 1998) was a successful effort at attracting non-governmental actors, notably the private business sector, to participate in UNCTAD's operational activities. It opened up exciting possibilities in terms of enlisting the know-how, expertise and resources of the private sector in common development endeavours. At the same time, however, it also raised some important issues about the kinds of partnerships that can be envisaged, given the essentially different approach of international organizations on the one hand and of profit-seeking private economic operators on the other.

172. In particular, a distinction needs to be made between on the one hand partnerships where the common interest of UNCTAD and the partner lies in undertaking and/or promoting research-type activities designed to benefit specific areas of economic activities in developing countries and on the other partnerships involving the joint implementation of technical cooperation activities resulting in a clearly defined end-product, be it a software package, a training programme or policy advice. In the first case, the partner might wish to enhance its public image by advertising the fact that it is engaging in joint research with the United Nations. Accommodating such interests might call for a revision of existing guidelines concerning, for example, the use of the United Nations name and emblem, but it does not appear to pose insurmountable obstacles in terms of safeguarding the integrity of the United Nations.

173. By contrast, the second category of partnerships raises difficult issues of conflicts of interest. Since the potential partners in this type of collaboration could include commercial enterprises, the problems noted above are compounded by the much more problematic issue of transparency in choosing one partner rather than another and the related question of potential unfair commercial advantage. Another problem raised by this second type of partnership concerns possible claims by recipients arising from what might be perceived as incorrect or misguided advice or technical support.

174. These issues are not unique to UNCTAD, but are common to the United Nations as a whole. They have not been appropriately dealt with, and no clear set of consistent guidelines to approach them is available. Efforts are currently under way, under the leadership of the Deputy

Secretary-General of the United Nations, to provide such guidelines, and the UNCTAD secretariat is participating in these efforts.

2. Integrating civil society into debates in UNCTAD

175. There is by now enough experience in relations with civil society to consider the possibility of upgrading the existing structured links between UNCTAD and non-governmental actors. This can be done by establishing regular, institutionalized encounters between governmental and non-governmental actors. This could take the form of specially convened encounters in which representatives of civil society and the private sector could interact with Governments. The purposes of such encounters would be to allow UNCTAD to:

- Enrich its debates on policy issues related to global trade, finance, knowledge and information flows, technology and their linkages to development. The involvement of those who make the commercial, financial and technological decisions that affect the process of economic development, and of grass-roots non-governmental organizations, would bring valuable real-life experience and perceptions into the discussion.

- Receive continuous feedback on the impact of its activities in developing countries.

- Ensure transparency in the conceptualization and implementation of new partnerships with non-governmental actors in its technical cooperation activities.

176. Each encounter - there would be no more than three in each biennium - would be organized around a specific topic. The criteria for selecting a topic could include its relevance to ongoing international debates and to the work of UNCTAD, its possible implications for concrete action, and the extent to which it offers the possibility of further joint work with civil society. Participants would be selected in terms of their potential contribution to the topic at hand. Decisions about timing, topics and participants would be made by the Secretary-General of UNCTAD in consultation with member Governments. The outcomes of the discussions would be reported by the Secretary-General to the Trade and Development Board and could be disseminated through a special publications series.

177. In addition, the annual consultations between the secretariat, on the one hand, and NGOs and trade unions, on the other, would continue.

178. Two other ideas to strengthen the presence of civil society in the work of the organization could be considered. One is the possibility of allowing for the structured participation of non-governmental actors, including the private sector, in UNCTAD's Expert Meetings. This seems possible given the fact that, while the experts attending those meetings are nominated by Governments, they attend in their personal capacities. Arrangements can be devised to allow for the presence of civil society representatives without altering the intergovernmental character of the meetings. This proposal would address the concern of many NGOs and business associations to the effect that UNCTAD, in common with some other parts of the United Nations, does not

normally provide sufficient motivation and incentives for their participation in intergovernmental meetings. The secretariat would be prepared to explore possibilities should Governments so wish.

179. A second idea that may recommend itself would involve setting up feedback mechanisms at the country level through the creation of a decentralized network of local UNCTAD "dialogue groups", either real or virtual. These would discuss trade and development issues from the national and regional perspective and draw conclusions to be forwarded for consideration in UNCTAD; the groups could also act as channels for feedback on the implementation and follow up of UNCTAD's technical cooperation work.

D. UNCTAD at the beginning of the twenty-first century: concluding remarks

180. The world economy has evolved rapidly over the past several decades, and it can be said with some assurance that change will also be rapid in the decades ahead. The directions of change are, as always, difficult to foresee with precision, but the trend towards greater interaction of the peoples and economies of the world will surely continue.

181. The process of globalization is being driven by the activities of private enterprises. The increasingly global reach of the latter has not been matched by a correspondingly global reach of the instruments of governance. This has contributed to the increasing vulnerability and instability of large parts of the world economy. It has also contributed to growing inequality in the distribution of the benefits of globalization: both poor countries and poorer groups within countries risk being increasingly marginalized.

182. Improvements in economic governance, both at the global and at the national level, are urgently required, and the development objective must be a central element in those improvements. UNCTAD will contribute to this endeavour, and should adapt itself so as to allow its full potential to be realized.

183. The range of knowledge and information required for effective policy formulation is constantly growing as economic policy-making takes on increased complexity. Policy-makers in developing countries require support in addressing those issues that are central to them. To take just three examples from UNCTAD's own past, they need to know such things as how to use modern techniques of risk management to help them cope with volatility in commodity prices; they need to know how to assess the likely impact on their interests of proposed changes in the trade regime; and they need to know which policies for attracting foreign direct investment have worked and which have not (and why). UNCTAD must build on its own rich experience and sharpen its capacity to generate and transmit knowledge about development policies. To this end it should use to the full the various instruments at its disposal: intergovernmental bodies, dialogue that includes civil society, and secretariat activities.

184. Knowledge, information and technology are also increasingly the basis on which private enterprise establishes and maintains competitiveness. The policies, institutions and practices that

influence the creation and diffusion of commercially relevant knowledge are critical to the development of indigenous firms in developing countries, and therefore to the development process as a whole. These policies, institutions and practices should be examined intensely by UNCTAD in the period ahead, so as to identify policy issues for development.

185. There are two important implications for UNCTAD of the increasingly knowledge-based character of growth and of development policies.

186. Firstly, knowledge has many sources and flows through many channels. All of society's actors are consumers or producers of knowledge (or both) and therefore have a direct interest in the issues that arise in its production and diffusion. Engaging civil society on this topic is particularly appropriate.

187. Secondly, with knowledge at the fulcrum of economic activity, concern about equity must also become a concern about the availability of knowledge. Traditional concerns about the impact on equity of access to resources retain all their force. But knowledge empowers, and there can be no lasting diminution in poverty or narrowing of the gap between rich and poor countries without this empowerment.

188. The value added of knowledge-based development institutions like UNCTAD derives from their capacity to produce new thinking through their research capability and from the accumulated experience of development problems obtained as a result of their operational activities. A constant of UNCTAD's pursuit of its development mission since its founding has indeed been its capacity to serve as a centre for research, conceptual innovation and policy analysis, and thus as a generator of ideas and policy initiatives.

189. UNCTAD's task of promoting constructive policy dialogue among member States and of providing policy guidance on national policies and on an enabling environment conducive to trade and development can only be accomplished if the results of its research and the lessons derived from its field operations reach the diverse individuals and institutions which influence, shape and implement policies in member States. In this sense, the effective and wide dissemination of information plays an indispensable role in the fulfilment of mandates, and this calls for an appropriate endowment of the human and technical resources necessary to ensure that UNCTAD's message reaches its intended audience.

190. As a development body, UNCTAD must remain firmly anchored in its mission and mandate while responding to the evolution of the world economy. By shaping itself in the years ahead into a knowledge-based institution, UNCTAD will be able to address more effectively its traditional concern about equity, while adapting to changes in the world economy and to their implications for development.